Cockerline Memorial Fund v. Commissioner, 86 T. C. 53 (1986)

A testamentary trust can qualify as a supporting organization under IRC Section 509(a)(3) if it maintains a historic and continuing relationship with publicly supported organizations, even if not specifically named in its governing documents.

Summary

The Cockerline Memorial Fund, established by Mrs. Lois E. Cooley's will to provide scholarships to Oregon students, sought to be classified as a supporting organization under IRC Section 509(a)(3), thereby avoiding private foundation status and associated excise taxes. The IRS had classified it as a private foundation. The Tax Court held that the Fund was indeed a supporting organization due to its historic and continuous relationship with Oregon colleges, particularly Northwest Christian College, which received a significant portion of the Fund's scholarships. The decision hinged on the Fund's organizational structure, operational ties, and the substantial identity of interests with the supported organizations, emphasizing the importance of ongoing relationships over strict naming requirements in organizational documents.

Facts

The Cockerline Memorial Fund was created in 1968 under the will of Mrs. Lois E. Cooley to provide scholarships to Oregon residents attending colleges in the state, with a preference for Northwest Christian College (Northwest). The Fund's board of trustees included the president of Northwest as an ex officio member. A scholarship committee, heavily influenced by Northwest, recommended scholarship recipients, which the board almost always approved. During the years in question, Northwest received an average of two-thirds of the Fund's scholarship distributions. The Fund distributed all its income annually to Oregon colleges, and its activities remained consistent throughout its existence.

Procedural History

The IRS initially classified the Fund as a private foundation in 1970. After a routine audit, the IRS determined that the Fund had not sought advance approval for its grant-making procedures as required for private foundations, leading to the assessment of excise taxes for the years 1977-1979. The Fund petitioned the Tax Court for a reclassification as a supporting organization under IRC Section 509(a)(3), which would exempt it from these taxes. The Tax Court ruled in favor of the Fund, holding it was a supporting organization.

Issue(s)

1. Whether the Cockerline Memorial Fund was a supporting organization within the meaning of IRC Section 509(a)(3) during the years 1977 through 1979.
2. If the Fund was not a supporting organization, whether the IRS's refusal to grant

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retroactive approval of its grant-making procedures under IRC Section 4945(g) was an abuse of discretion.

Holding

1. Yes, because the Fund maintained a historic and continuing relationship with Oregon colleges, particularly Northwest Christian College, satisfying the requirements for a supporting organization under IRC Section 509(a)(3).
2. The court did not need to address this issue due to the holding on the first issue.

Court's Reasoning

The court applied the criteria for supporting organizations under IRC Section 509(a)(3), focusing on the relationship between the Fund and the supported organizations. The court found that the Fund satisfied both the responsiveness and integral part tests required for organizations "operated in connection with" publicly supported organizations. The presence of the president of Northwest on the Fund's board and the significant influence of Northwest on the scholarship committee demonstrated responsiveness. The substantial distribution of funds to Northwest, affecting a significant portion of its students and financial aid, satisfied the integral part test. The court also held that the "historic and continuing relationship" exception applied, allowing the Fund to be classified as a supporting organization despite not naming specific supported organizations in its governing documents. The court emphasized that the legislative intent behind Section 509(a)(3) was to prevent abuse while not unduly restricting organizations supporting educational institutions.

Practical Implications

This decision clarifies that a supporting organization need not name specific supported entities in its governing documents if it maintains a historic and continuing relationship with those entities. Practitioners should consider the ongoing relationships and substantial identity of interests when advising clients on potential supporting organization status. The ruling may encourage more flexible interpretations of the "specified" requirement under Section 509(a)(3), potentially allowing more organizations to qualify as supporting organizations and avoid private foundation status and associated excise taxes. Subsequent cases, such as *Change-All Souls Housing Corp. v. United States*, have applied this reasoning to similar situations, reinforcing the importance of ongoing relationships in determining supporting organization status.

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