Internal Revenue Service

Department of the Treasury

Washington, DC 20224

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Contact Person:

Telephone Number:

S.I.N.:
513.00-00
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In Reference to:
OP:E:EO:T:2

Date:
DEC 10 1998

Employer Identification Number:
Key District:

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Dear Applicant:

This letter is in reply to the letter from your authorized representative dated July 27, 1998, in which you requested rulings with respect to your proposed office automation training program.

You are an organization recognized by the Internal Revenue Service as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. You are a publicly supported organization described in sections 170(b)(1)(A)(vi) and 509(a)(1) of the Code.

Your mission is to enhance the quality of the lives of people who have disabilities and other vocational disadvantages by assisting them to become productive and self-sufficient through the use of placement services. One of your main purposes is to assist individuals who are socially, economically and vocationally disadvantaged, and individuals with physical, mental, and emotional disabilities, to achieve the highest degree of economic and personal independence. In line with this purpose, you train and place as many individuals as possible into competitive employment positions within their communities.

You operate a center designed to introduce employers and job seekers to each other. Your center is open to anyone in the general public community in need of job search assistance, including those who are already employed. Your center provides various resource materials, and conducts weekly workshops on all aspects of employment preparation and job search techniques. Your center also receives referrals from your state's employment training panel, employment development department, regional centers for the developmentally disabled, and the department of rehabilitation for job search assistance.

You also maintain an education, training, and job placement department. This department offers an office application and computer training program to prepare individuals for clerical and data/word processing positions. This program involves hands-on individualized instruction in computer skills, and employment preparation, and provides some part-time limited work experience to the trainees. The computer applications segment of the training emphasizes proficiency in basic software programs. The program is funded through various state and federal sources, and is free of cost to trainees.

You have designed a new office automation training program as a service to your community at large, including both nonprofit and for-profit organizations. The program's purpose is to provide low cost training to all persons of the general public with vocational disadvantages, including barriers to employment cause by lack of technological knowledge and training. This program is also open to those who are interested in improving their skills and seeking job promotion through continuing education in the high tech environment. This program is funded by the fees charged to each student in the proposed amount of $x per course; however, those who demonstrate financial hardship may receive fee reductions or waivers.

You are licensed by the state as a provider of vocational education, and this new program, taught at your headquarters, features hands-on instruction by a professional office automation instructor, and includes an introduction to personal computers and software, and various basic Microsoft programs. You will attempt to meet any growth of this program by offering it at additional locations throughout the community. Each course lasts approximately 6 hours, and includes a course textbook purchased by you from a well-known publisher of computer textbooks. Each student who successfully completes the course receives a certificate of completion.

Section 501(c)(3) of the Code provides for exemption from federal income tax of organizations organized and operated exclusively for charitable, scientific, or educational purposes provided no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense.

Section 511(a) of the Code imposes a tax on the unrelated business taxable income of organizations described in section 501(c).

Section 512(a)(1) of the Code defines the term "unrelated business taxable income" as the gross income derived by any organization from any unrelated trade or business regularly carried on by it, less certain allowable deductions and modifications.

Section 513(a) of the Code defines the term "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of the function constituting the basis of its exemption.

Section 1.513-1(d)(2) of the Income Tax Regulations provides that trade or business is "related" to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes; and it is "substantially related" only if the causal relationship is a substantial one. The regulation continues that for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

Section 1.513-1(d)(4)(i) of the regulations provides that gross income derived from charges for the performance of exempt functions does not constitute gross income from the conduct of unrelated trade or business.

Rev. Rul. 73-128, 1973-1 C.B. 222, holds that an organization that is otherwise qualified for exemption from income tax will not fail to qualify merely because its education and vocational training of unemployed and under-employed individuals is carried out through the manufacturing and selling of toy products. The organization was formed to provide educational and vocational training and guidance or nonskilled persons who are unable to find employment or cannot advance from poorly paid employment due to inadequate education. The organization operates a number of community programs including classes in remedial reading and language skills, general counseling services, and job training programs. The revenue ruling states that providing vocational training and guidance to the unskilled and under-employed may qualify as a charitable purpose so long as the manner of its achievement is otherwise charitable. The revenue ruling concludes that, in this case, the facts clearly support the conclusion that the manufacturing and merchandising operation is the means of accomplishing the

organization's declared charitable objectives, and, thus, there is a clear and distinct causal relationship between the manufacturing activity and the training of individuals for the purpose of improving their individual capabilities; there is likewise no evidence that the scale of the endeavor is such as to suggest that it is being conducted on a larger scale than is reasonably necessary to accomplish the organization's charitable purpose.

Your proposed office automation program, as discussed in Rev. Rul. 73-128, supra, contributes importantly to your exempt purpose of career training for those with barriers to employment. Your educational purposes are achieved by serving the educational pursuits of a diverse community whose members have varied disadvantages. Instructing or training individuals to improve their business or professional capability is an educational purpose under section 501(c)(3) of the Code. Further, as explained in section 1.513-1(d)(4)(i) of the regulations, the program fees do not constitute gross income from the conduct of unrelated trade or business.

Accordingly, based on the facts and circumstances concerning the new program as stated above, we rule as follows:

(1) Your participation in your new office automation program will not jeopardize your tax exempt status under section 501(c)(3) of the Code.

(2) The income which you receive from the new office automation program will not be treated as unrelated business taxable income under section 512(a) of the Code, and, accordingly, will not be subject to the tax imposed by section 511.

These rulings are based on the understanding that there will be no material changes in the facts upon which they are based. Any such change should be reported to your key District Director. Because it could help resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records. A copy of this ruling is being forwarded to your key District Director.

Except as we have specifically ruled herein, we express no opinion as to the consequences of these transactions under the cited provisions or under any other provisions of the Code.

This ruling is directed only to the organization that requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

(signed) Garland A. Carter

Garland A. Carter
Chief, Exempt Organizations
Technical Branch 2