

FEDERAL TAXATION

Exempt Organizations—§ 7920

The American Institute of Accountants is not a charitable organization for the deduction of contributions.⁶

1. G.C.M. 4605, CB VII-2, 58 (1928).
2. Dulles, Est. (Cromwell Will), v. Johnson, 273 F. (2d) 362, rev'g 155 F. Supp. 275.
3. Letter to Foundation 12/24/52.
4. Letter ruling 12/15/61.
5. Rev. Rul. 60-143, CB 1960-1, 192, revok'g G.C.M. 22116, CB 1940-2, 100.

§ 7918. Scientific research organizations. The scientific research may be basic or applied but it must be in the public interest rather than for the benefit of a private person or industry. The Treasury has these tests for determining whether research is in the public interest:

- (1) The results (including any copyrights, patents, processes or formulae) are made available to the public on a nondiscriminatory basis; or
- (2) the research is performed for the United States, its instrumentalities or agencies or its state or its subdivisions; or
- (3) the research is directed toward benefiting the public.¹

Among research which is directed toward benefiting the public, the Treasury lists:

- ... research in connection with the scientific education of college and university students
- ... research for obtaining scientific information which will be published or otherwise made available to the public
- ... research to cure a disease
- ... research to help a community attract, develop or retain an industry.

Research for these purposes is carried on for the public benefit even though a contract or agreement gives the sponsors the right to any resulting copyrights, patents or the like.²

Research organizations will not be exempt if they perform work only for their creators which are not themselves exempt charities. Nor will they be exempt if they do not make the results of their research available to the public on a nondiscriminatory basis. However, if the research is carried on for a government or for one of the ends listed above, the research organization will not lose its exemption by turning over the results to only one person where this is the only practical way of exploiting the discovery for the public.³

An exempt organization such as a university or a college may carry on non-exempt research. It will not lose its exemption if the non-exempt research remains secondary to its exempt purposes. However, any income from the non-exempt research may be taxable as unrelated business income. See § 8006. And in this connection the distinction between basic and applied research may be significant.

Here's how the Treasury has applied these rules.

- ... An organization which performed social science research and made its findings available to the public was exempt.⁴
- ... An organization which designed and developed machinery in connection with a commercial operation wasn't exempt.⁵
- ... An organization that prepared and distributed free abstracts of scientific and medical literature was exempt.⁶

1. Regs. § 1.501(c)(3)-1(d)(5).
2. Regs. § 1.501(c)(3)-1(d)(5)(iii)(c).
3. Regs. § 1.501(c)(3)-1(d)(5)(iv).
4. Rev. Rul. 63-60, CB 1963-1, 231.
5. Rev. Rul. 65-1, CB 1965-1, 226.
6. Rev. Rul. 66-147, IRB 1966-22, 15.

§ 7919. Hospitals and homes for the aged. An exempt hospital must be organized as a non-profit organization for the care of the sick. While it may charge fees for its services, to the extent of its financial ability it must admit for treatment those unable to pay. It may not restrict the use of its facilities to a particular group of physicians. Provisions for dividends in the by-laws automatically disqualifies a hospital. And a hospital will not be exempt if the salaries paid to its managers are designed to siphon off most of the income.¹ While the hospital may have a prepayment plan, the use of its facilities must be open to all the residents of an area including those unable to pay.²

A hospital won't be denied exemption merely because it charges doctors reasonable and non-discriminatory fees for use of its facilities in order to obtain funds to build a new hospital.³

A nonprofit hospital which fails to qualify as a charitable organization may be exempt as a civic organization.⁴

Homes for the aged will be exempt if services are rendered to all the residents or a reasonable portion of them for fees substantially below cost to the extent of the organization's financial ability.⁵ To determine whether the fees are below cost, entrance fees and any other lump sum fees may be prorated over the resident's life expectancy based on the Treasury's annuity tables.⁶ However, the home will not be denied exemption because some payment is demanded of all residents.⁷

1. Fore Scott Clinic and Hospital Corp. v. Broderick, 89 F. Supp. 515.
2. Rev. Rul. 56-185, CB 1956-1, 202.
3. Rev. Rul. 63-269, 2 1963-2, 159.
4. IRS Doc. No. 5551, (10/65), p. 5.
5. Rev. Rul. 61-72, CB 1961-1, 185.
6. Rev. Rul. 64-221, CB 1964-2, 139.
7. Rev. Rul. 61-72, CB 1961-1, 188.

§ 7920. Testing for public safety. An organization which does testing for public safety is exempt.¹ This includes testing con-