

Internal Revenue Service

for Inroads / Milwaukee Inc.
Entered in PCG Department of the Treasury

Washington, DC 20224

Inroads, Inc.
P.O. Box 831
Chicago, IL 60690

EIN: 62-0967197
DO: 36
Group Exemption No.: 2729

Person to Contact:

Phone Contact: Floyd Culhane
Telephone Number: 202-566-4002

Refer Reply to:

E:EO:T:R:l-1

Date:

10 OCT 1978

Dear Applicant:

This is in reply to your letter of May 18, 1978 requesting the following rulings:

(1) You and your local affiliates are eligible to apply the "facts and circumstances" test within the meaning of section 1.170A-9(e)(3) of the Income Tax Regulations and furthermore, you and your affiliates are eligible to use the 10 percent public support limitation within the meaning of section 1.170A-9(e)(3)(i) of the regulations.

(2) Donor's contributions will be subject to the deduction limitations within the meaning of section 170(b)(1)(A) of the Internal Revenue Code of 1954.

You have been recognized as exempt from Federal income tax under section 501(c)(3) of the Code. You and your local affiliates received a group exemption letter dated May 21, 1976. On November 22, 1977, we determined that you are not a private foundation within the meaning of section 509(a) because you are an organization of the type described in section 170(b)(1)(A)(vi) and section 509(a)(1).

You are a national organization with six local affiliated organizations. Your purpose is to assist talented young people from the inner city in choosing a vocation and helping them obtain employment in fields of their interest. To fulfill this purpose, you are currently engaged in counseling and a formal training program related to the engineering field, and in an active program of providing summer, career-related employment for minority students about to enter college with sponsoring corporations. About 50 percent of these students remain with the sponsoring corporation in a career-related position subsequent to graduation from college. These sponsoring corporations make an annual donation to your local affiliates to cover operating costs.

You propose to expand your overall national operations at a rate of approximately two cities per year over the next five years. As part of this expansion effort, you plan to establish a development fund which your Board of Directors feels is necessary to give stability and continuity to the operations of your affiliates and provide a basis for systematic

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growth to new cities. The purpose of the development fund is to provide you with the resources to oversee the activities of your affiliates in the various cities as well as to provide for continued training and development of staff and students and reduction of fee assessments currently charged to the local affiliates for management services. You hope to receive a number of sizeable donations, primarily from individuals and corporate foundations.

The members of the Boards of Directors of you and your affiliates are comprised of business executives, university administrators and other individuals.

Section 509(a)(1) of the Code provides, in part, that the term "private foundation" means an organization described in section 501(c)(3) other than an organization described in section 170(b)(1)(A)(vi).

Section 170(b)(1)(A)(vi) of the Code describes, in part, organizations which normally receive a substantial part of their support from direct or indirect contributions from the general public.

Section 1.170A-9(e)(1) of the regulations provides, in part, that to qualify as a "publicly supported" organization, an organization must meet the 33-1/3 percent-of-support test of section 1.170A-9(e)(2), or the facts and circumstances test of section 1.170A-9(e)(3). The facts and circumstances test requires that an organization receive at least 10 percent of its support from the general public, that it be organized and operated to attract new and additional public support on a continuous basis, and that it be in the nature of a "publicly supported" organization taking into account, in part, the following factors: the percentage of support received from the general public, whether such support is received from a representative number of persons, whether the organization has a governing body which represents the broad interests of the public, and whether the organization maintains a program to accomplish its charitable work in the community, such as slum clearance or developing employment opportunities.

Section 1.509(a)-7 of the regulations provides, in essence, that once an organization has received a final ruling or determination letter classifying it as an organization described in section 170(b)(1)(A)(vi) of the Code, the treatment of grants and contributions and the status of grantors and contributors to such organization under section 170 will not be affected by reason of a subsequent revocation by the Service of the organization's classification as described in section 170(b)(1)(A)(vi) until such change of status is published. However, it also states that a grantor or contributor may not rely on such a ruling or determination letter if such grantor or contributor was in part responsible for, or was aware of, the act, the failure to act, or the substantial and material change on the part of the organization which gave rise to the revocation of the ruling or determination letter classifying the organization as one described in section 509(a)(1).

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Section 1.170A-9(e)(4)(v)(c) of the regulations deals with reliance by grantors or contributors to organizations which have received a final determination that they are described in section 170(b)(1)(A)(vi). This section provides that a grantor or contributor, other than one of the organization's founders, creators, or foundation managers will not be considered to be responsible for, or aware of, a substantial or material change in the organization's sources of support which could result in an organization's loss of classification under section 170(b)(1)(A)(vi) of the Code, if such grantor or contributor has made such grant or contribution in reliance upon a written statement by the grantee organization that such grant or contribution will not result in the loss of such organization's classification as described in section 170(b)(1)(A)(vi). Such statement must be signed by a responsible officer of the grantee organization and must set forth sufficient information, including a summary of the pertinent financial data for the four preceding years, to assure a reasonably prudent person that his grant or contribution will not result in the loss of the grantee organization's classification as a publicly supported organization as described in section 170(b)(1)(A)(vi). If a reasonable doubt exists as to the effect of such grant or contribution, the procedure set forth in section 1.170A-9(e)(6)(vi)(b) may be followed by the grantee organization for the protection of the grantor or contributor. Section 1.170A-9(e)(6)(vi)(b) provides, in part, that rulings may be requested that a grant can be excluded from the support computations if the grant can be classified as an "unusual grant."

Section 1.170A-9(e)(6)(ii) of the regulations defines the term "unusual grant" to mean, in pertinent part, substantial contributions from disinterested parties which are attracted by reason of the publicly supported nature of the organization, are unusual or unexpected with respect to the amount thereof, and which would, by reason of their size, adversely affect the status of the organization as normally being publicly supported.

Section 1.170A-9(e)(5)(iii)(c) of the regulations provides for reliance by grantors and contributors during the period of time covered by an advance ruling issued to a newly created organization. Grantors and contributors may rely on an advance ruling that an organization is described in section 170(b)(1)(A)(vi) of the Code until notice of a change of status of such organization is made to the public, unless the grantor or contributor was responsible for, or aware of, the act or failure to act that resulted in the organization's loss of classification under section 170(b)(1)(A)(vi) or acquired knowledge that the Internal Revenue Service had given notice to such organization that it would be deleted from such classification. The section further provides that prior to the making of any grant or contribution which allegedly

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will not result in the grantee's loss of classification under section 170(b)(1)(A)(vi), a potential grantee organization may request a ruling whether such grant or contribution may be made without such loss of classification. Such a ruling may then be relied on by the grantor or contributor. To receive such a ruling, the organization must submit all information necessary to make a determination on the factors referred to in section 1.170A-9(e)(6)(iii) of the regulations, which provides for the exclusion of certain grants which can be classified as "unusual grants."

You state that the large contributions expected to be received over the three year period of your fund-raising program could preclude you from satisfying the mechanical test for determining public support of section 1.170A-9(e)(2) of the regulations. However, an organization may establish that it is described in section 170(b)(1)(A)(vi) by meeting the facts and circumstances test of section 1.170A-9(e)(3) of the regulations.

The information submitted indicates that you and your affiliates maintain a continuous and bona fide program for the solicitation of funds from the general public, that your governing body is representative of the broad interests of the public, and that you maintain a program to accomplish your charitable work in the community through the promotion of job opportunities for disadvantaged minority students.

Accordingly, based upon the information presented and assuming that there is no relevant change in the facts upon which this ruling is based, we rule that if you and your local affiliates receive at least 10 percent of your support from the general public within the meaning of section 1.170A-9(e)(3)(i) of the regulations, then you and your affiliates can qualify as "publicly supported" organizations, within the meaning of section 170(b)(1)(A)(vi) of the Code, under the facts and circumstances test of section 1.170A-9(e)(3) of the regulations. We note that in computing whether or not you and your local affiliates have met the applicable support tests of sections 1.170A-9(e)(2) and (3) of the regulations, you and each local affiliate must independently qualify as "publicly supported" based upon the financial support each of you has received. You cannot properly make a determination of your status under section 170(b)(1)(A)(vi) based upon the aggregate of the support received by your group.

As to your second ruling request, sections 1.509(a)-7, 1.170A-9(e)(4)(v)(c), and 1.170A-9(e)(5)(iii)(c) of the regulations provide that grantors or contributors to you and your local affiliates may rely on your group exemption letter dated May 21, 1976, as modified by our letter of November 22, 1977, but only to the extent provided in those sections of the regulations. Accordingly, in order to provide assurance to donors

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that their contributions will be subject to the deduction limitations of section 170(b)(1)(A), you should follow the procedures outlined in section 1.170A-9(e)(4)(v)(c) or 1.170A-9(e)(5)(iii)(c) of the regulations, as applicable.

If you have any questions on this matter, you may telephone the person whose name and telephone number is listed above.

Sincerely yours,

Jeanne S. Gessay

Jeanne S. Gessay
Chief, Rulings Section 1
Exempt Organizations
Technical Branch