



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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Contact Person:
Identification Number:
Telephone Number:
Employer Identification Number:

Legend:

Company =
Program =

Dear

This letter is in response to your request for a letter ruling relating to the proposed adoption of Program described below.

Facts:

You are a public benefit corporation organized and operated to carry on charitable and educational activities. You have been recognized as tax-exempt under § 501(a) of the Internal Revenue Code ("Code") as an organization described in § 501(c)(3). In addition, you have been classified as a public charity under §§ 509(a)(1) and 170(b)(1)(A)(vi).

You were founded for the primary purpose of providing grants to individuals who are employees and retirees of Company who are experiencing emergency and crisis situations and in need of assistance involving food, shelter, and other basic necessities of life. Your board of directors is comprised of thirteen individuals, none of whom are your employees. You indicate that your board of directors is comprised of persons wholly independent of any credit counseling or debt management service providers and none of the board members have a financial interest in your activities. Additionally, the members of your board possess special knowledge or expertise in financial education, and are community leaders.

You indicate that as a way of enhancing your charitable purposes, your board of directors has considered a variety of ideas and conducted extensive research to address the issues of financial instability plaguing low-skilled and low-income workers with little financial education and savings to avert future emergencies. By targeting and educating this financially vulnerable population, you hope to prevent conditions of financial distress before it occurs.

In particular, your board has recommended creating and operating Program, which offers financial management and literacy courses as well as a counseling program. Its goal is to educate lower income persons about the benefits of personal savings and to encourage fundamental changes in the manner in which they view, save, and use money. As currently envisioned, Program will have four phases:

Phase I: Introduction to Financial Management

In Phase I, participants will attend individually or, in some cases, with their children, a basic financial literacy course. During Phase I, participants will discuss and learn about topics including household budgeting, monthly income analysis, understanding credit, managing debt, identifying financial priorities, and the critical role of savings.

To provide the highest quality instructors who are best able to meet the current needs of financially stressed and/or less educated individuals, you will hire qualified, unaffiliated third party organizations or independent contractors. Third party instructors will be selected on the bases of their comprehensive expertise in counseling skills, personal finance, budgeting, and credit and debt management; their ability to develop options and recommendations that address the particular circumstances of each participant; their ability to identify underlying personal problems (such as illness) that might contribute to financial problems and their ability to make appropriate referrals; and how thoroughly and effectively they develop and present options to match the particular circumstances of each participant. These instructors will be paid a flat rate or a set amount per class.

Phase II: Advanced Financial Literacy Courses

In Phase II, participants will be required to take two or more additional financial literacy courses offered through qualified, unaffiliated third party organizations or independent contractors as described in Phase I, from a menu of subjects to reinforce and expand upon the principles learned in the basic course. Courses may include organizing financial documents, taxes, financial management, retirement savings, and saving for a child's college education through a § 529 college savings plan. To the extent needed, you will assist individuals in selecting courses that should be taken based upon the individual's specific circumstances.

Phase III: Individual Counseling

Phase III, which may run concurrently with Phase II, will discuss individual counseling needs for those participants in need of such personalized services. As with Phase I and Phase II, you will provide these services through third party providers selected on the basis of the quality of counseling provided. Counselors will be paid a flat rate or a set amount per individual. You will not receive or pay any referral fees for this service.

Phase IV: Enrollment in Savings Programs

For participants that successfully complete Phases I through III, or who are actively completing at least through Phase II, you will facilitate enrollment in savings programs like § 401(k) retirement plans or § 529 college savings plans. You indicated that this phase, in conjunction with the previous phases, offers a powerful incentive to change savings behavior and help break the cycle of poverty in which participants' families may be stuck.

In Phase IV, participants in the college match program may be eligible to receive a match up to a specified dollar amount. This match is based on completing coursework and consistency of savings on an annual basis provided that participants demonstrate good savings practices as taught by the courses offered in Phase I and II. It is evidenced by establishing a § 529 plan and the regular use of payroll deductions to make contributions to that plan. This would be accomplished by your opening and awarding matching funds to § 529 entity accounts earmarked for qualifying beneficiaries. Access to the entity account would be turned over to the beneficiary at age eighteen with proof of college enrollment.

To be eligible to participate in the college match program, participants must have worked for Company for at least six months, have at least one dependent child less than twenty-one years old, and have an annual family income below the applicable state geographic area's median income level. Applicants must formally apply and supply you with information regarding their sources of income, assets, liabilities, and expenses. Once the applicant provides all the requested information, and assuming the applicant is below the threshold low-income levels as determined, the applicant will be enrolled at no cost. Although financial need will be assessed for initial eligibility, it need not be revalidated every year.

A committee of your board will oversee Program. The committee has at least three members from your board and at all times will include at least 80 percent independent persons who are not your employees or employees of Company. The committee shall include persons who represent the broad interests of the public, specifically, those possessing community leadership skills, special knowledge or expertise in credit and financial education, or both.

You represent that you do not provide any loans under Program, and that you do not provide direct services related to improving credit records, credit history, or credit ratings. Furthermore, participants in Program are not charged a fee for participating in such, and thus, the ability or inability to pay fees is not a criterion. You further represent that you do not solicit contributions from participants. Moreover, you have no control, profit interest, or beneficial interest in any other entity. Finally, you do not provide debt management services, and therefore, do not receive fees for debt management plans or similar services, and do not pay any amounts for referrals.

Ruling Requested:

Based on the above representations, creating and operating Program will not adversely affect your status as an organization described in § 501(c)(3).

Law:

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

Section 501(q) imposes additional requirements on organizations otherwise described in § 501(c)(3) if "the provision of credit counseling services is a substantial purpose."

Section 501(q)(1)(A) provides that an organization with respect to which the provision of credit counseling services is a substantial purpose shall not be exempt from tax under § 501(c)(3) unless it is organized and operated in accordance with specific requirements: the organization must provide credit counseling services tailored to the specific needs and circumstances of consumers, the organization cannot make loans or negotiate the making of a loan on behalf of consumers, and the organization cannot charge a separately stated fee for services to improve a consumer's credit record, credit history, or credit rating.

Section 501(q)(1)(B) provides that an organization cannot refuse services to a consumer due to the inability of the consumer to pay or because of the ineligibility or refusal of the consumer to enroll in a debt management plan.

Section 501(q)(1)(C) provides that the organization's fees must be reasonable and the fee policy must allow for the waiver of fees for consumers who are unable to pay. The organization can not refuse to provide credit counseling services to a consumer due to the inability of the consumer to pay, the ineligibility of the consumer for debt management plan enrollment, or the unwillingness of the consumer to enroll in a debt management plan. Except to the extent allowed by State law, this section prohibits the charging of any fee based in whole or in part on a percentage of the consumer's debt, the consumer's payments to be made pursuant to a debt management plan, or on the projected or actual savings to the consumer resulting from enrolling in a debt management plan.

Section 501(q)(1)(D) provides that at all times the board of directors of a credit counseling service organization must be controlled by persons who represent the broad interests of the public, such as public officials acting in their capacities as such, persons having special knowledge or expertise in credit or financial education, and community leaders. Not more than 20 percent of the voting power of the board of directors can be vested in persons who are employed by the organization or who will benefit financially, directly or indirectly, from the

organization's activities. Furthermore, not more than 49 percent of the board may be employees of the organization, creditors, or those who will benefit financially.

Section 501(q)(1)(E) provides that an organization cannot own more than a 35 percent of the total combined voting power, the profit interest, or beneficial interest of any organization which is in the business of lending money, repairing credit, or providing debt management plan services, payment processing, or similar services.

Section 501(q)(1)(F) provides that the organization receives no amount for providing referrals to others for debt management plan services, and pays no amount to others for obtaining referrals of consumers.

Section 501(q)(2)(A) imposes additional requirements upon organizations otherwise described in § 501(q). These requirements include (1) the organization does not solicit contributions from consumers during the initial counseling process or while the consumer is receiving services from the organization, and (2) the aggregate revenues of the organization which are from payments of creditors of consumers of the organization and which are attributable to debt management plan services do not exceed the applicable percentage of the total revenues of the organization as set forth in § 501(q)(2)(B).

Section 501(q)(4)(A) defines "credit counseling services" as (1) providing educational information to the general public on budgeting, personal finance, financial literacy, saving and spending practices, and the sound use of consumer credit; (2) assisting individuals and families with financial problems by providing them with counseling; or (3) a combination thereof.

Section 501(q)(4)(B) defines, for purposes of § 501(q), the term "debt management plan services" to mean services related to the repayment, consolidation, or restructuring of a consumer's debt, and includes the negotiation with creditors of lower interest rates, the waiver or reduction of fees, and the marketing and processing of debt management plans.

Section 1.501(c)(3)-1(c)(1) of the Income Tax Regulations ("regulations") states that an organization will be regarded as operated exclusively for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in § 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(c)(2) provides that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals. Section 1.501(a)-1(c) defines the words "private shareholder or individual" in § 501 to refer to persons having a personal and private interest in the activities of the organization.

Section 1.501(c)(3)-1(d)(1)(i) states that an organization may be exempt as one described in § 501(c)(3) if it is organized and operated exclusively for one or more purposes, such as religious or charitable purposes, designated in that section.

Section 1.501(c)(3)-1(d)(2) provides that the term “charitable” is used in § 501(c)(3) in its generally accepted legal sense and includes relief of the poor and distressed or of the underprivileged as well as the advancement of education.

Section 1.501(c)(3)-1(d)(3) states that the term “educational” as used in § 501(c)(3), relates to:

- (a) the instruction or training of the individual for the purpose of improving or developing his capabilities; or
- (b) the instruction of the public on subjects useful to the individual and beneficial to the community.

In Rev. Rul. 67-138, 1967-1 C.B. 129, a nonprofit organization created to provide instruction and guidance to low-income families in need of adequate housing and interested in building their own homes was recognized as exempt under § 501(c)(3). The organization’s activities, directed toward assisting low-income families obtain improved housing, included (1) conducting a training course relative to various aspects of house building and homeownership, (2) coordinating and supervising joint construction endeavors, (3) purchasing building sites for resale at cost, and (4) lending aid in obtaining home construction loans. No fees were charged for any of these services. These activities were held to further “educational” purposes since the training is useful to and develops the capabilities of the individuals who receive it and benefits the community. The organization’s other activities in assisting families in need to obtain adequate housing are “charitable” since they provide relief to the underprivileged, lessen the burdens of government, and are a means of combating community deterioration.

In Rev. Rul. 68-167, 1968-1 C.B. 255, an organization formed to assist needy women in earning income was recognized as exempt under § 501(c)(3). It operated a market selling the cooking and needlework of these women who were not otherwise able to support themselves and their families. The organization charged a small sales commission for its services but was not self-supporting and depended on public contributions. The Service recognized that an organization can relieve the poor and distressed other than through direct grants, such as by providing necessary services.

In Rev. Rul. 69-441, 1969-2 C.B. 115, an organization was formed to help reduce the incidence of personal bankruptcy by informing the public on personal money management and by assisting low-income individuals and families who have financial problems. It provides information to the public on budgeting, buying practices, and the sound use of consumer credit. It aids low-income individuals and families who have financial problems by providing them with individual counseling and, if necessary, by establishing budget plans and related services without charge. The revenue ruling concluded that the organization is relieving the poor and

distressed, and it is instructing the public on subjects useful to the individual and beneficial to the community. Therefore, it qualified as an organization described in § 501(c)(3).

Analysis:

Section 501(c)(3) provides, in part, for the exemption from federal income tax of corporations organized and operated exclusively for charitable or educational purposes, provided that no part of the organization's net earnings inures to the benefit of any private shareholder or individual. The term "charitable" is used in § 501(c)(3) in its generally accepted legal sense and includes relief of the poor and distressed or of the underprivileged as well as the advancement of education. See § 1.501(c)(3)-1(d)(2). The term "educational" includes the instruction or training of individuals for the purpose of improving or developing their capabilities. See § 1.501(c)(3)-1(d)(3). Likewise, the education of low-income individuals on personal money management and aiding low-income individuals and families with financial problems is considered a charitable activity. See Rev. Rul. 69-441, supra.

Program, separately and collectively, is educational within the meaning of § 1.501(c)(3)-1(d)(3) and is similar to the program described in Rev. Rul. 69-441, supra. Phases I through III of Program are a comprehensive educational program designed to provide instruction to eligible low-income employees and retirees of Company about the benefits of personal savings and to encourage changing the way they view, save, and use money.

Program may also include individual financial counseling for those participants in need of such personalized services. See Rev. Rul. 67-138, supra (holding that an organization's activities were furthering "educational" purposes since the training is useful to and develops the capabilities of the individuals who receive it and benefits the community).

Because your educational program falls within the definition of "credit counseling services" as defined in § 501(q)(4)(A) and is a substantial purpose, you are also subject to the additional requirements set forth in § 501(q).

You meet the requirements of § 501(q)(1). Your financial courses and individual counseling services are tailored to the specific needs and circumstances of the participants. For example, Phase III of Program includes discussions of individual counseling needs and referrals that focus on the particular needs of the participant. You do not provide loans or services related to an individual's credit record, credit history, or credit rating. You do not charge a fee for participating in Program and do not provide debt management services. You meet the board of director's requirement because your board members are volunteers, no board member has a financial interest in your activities, your board is comprised of persons wholly independent of any credit counseling or debt management service provider, and your board represents the broad interests of the public. You do not have control, a profit interest, or beneficial interest in any other organization in the business of lending money, repairing credit, or providing debt management plan services, payment processing, or similar services. Finally, you do not receive any fee or amount for referrals.

You also meet the requirements of § 501(q)(2). You do not solicit contributions from individuals during their initial counseling sessions or at any time while they are participating in Program. Further, you do not provide debt management plan services so the fair share requirement is not applicable. Accordingly, we conclude that Program is operated in compliance with the additional requirements of § 501(q).

In addition to the educational and counseling features of Program, participants completing Phases I through III, will be eligible to participate in Phase IV. Phase IV of Program enables participants to enroll in savings programs like § 401(k) retirement plans or § 529 college savings plans. Participants in the college match program are eligible to receive a match up to a specified dollar amount based on completion of coursework and consistency of savings on an annual basis provided that participants demonstrate good savings practices as taught by the courses offered in Phase I and II and as evidenced by the establishment of a § 529 plan and the regular use of payroll deductions to make contributions to that plan.

Self-help programs are often used to ameliorate the problems of poverty. For instance, the marketing of cooking and needlework of needy women was considered a necessary service to further the organization's charitable purposes in Rev. Rul. 68-167, supra. Similarly, providing building lots and supplies was considered an appropriate means to achieving the charitable purposes of an organization operating a self-help housing program for low-income families in Rev. Rul. 67-138, supra.

You indicate that you have designed Program to maximize your charitable and educational purposes by addressing the issues of financial instability plaguing low-skilled and low-income workers with little financial education and savings to avert future emergencies. By targeting and educating this financially vulnerable population, you hope to prevent conditions of financial distress before it occurs. In particular, the college match program in Phase IV is an incentive uniquely designed to encourage low-skilled, low-income workers to change their savings behaviors and to steer them toward a more secure future. Because the college match program is an appropriate means to achieving your exempt purposes, the private benefit to the participants is incidental.

Ruling:

Based on the information submitted, we rule as follows:

Creating and operating Program will not adversely affect your current status as an organization described in § 501(c)(3).

This ruling will be made available for public inspection under § 6110 after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

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

This ruling is based on the facts as they were presented and on the understanding that there will be no material changes in these facts. This ruling does not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described. Because it could help resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records.

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

In accordance with the Power of Attorney currently on file with the Internal Revenue Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

Acting Manager, Exempt Organizations
Technical Group 1

Enclosure
Notice 437