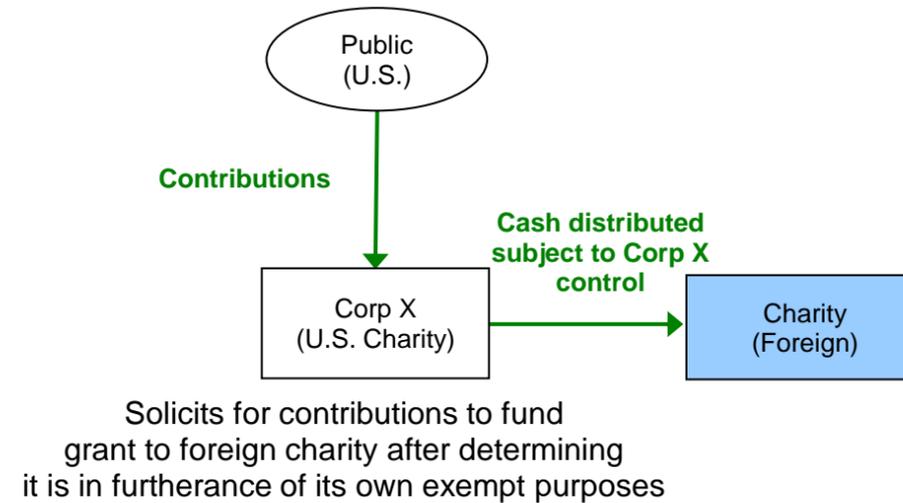


Deductibility of Contributions to Foreign Feeder Charity

Corp X is a domestic charitable organization and is exempt from Federal income tax as due to being organized and operated exclusively for charitable, educational, and scientific purposes described in section 501(c)(3). Contributions to it are deductible since it is an organization described in section 170(c)(2). From time to time, Corp X will solicit for donations for a specific project of a foreign charitable organization. Corp X only solicits for such donations after reviewing and approving the project as being in furtherance of its own exempt purposes, and retains control and discretion as to the use of the contributions.



Revenue Ruling 63-252 discusses the deductibility of contributions by individuals to a charity organized in the United States which thereafter transmits some or all of its funds to a foreign charitable organization. Example (4) of that ruling concerns a domestic organization described in section 170(c) which makes grants to a foreign organization for purposes which the domestic organization has reviewed and approved as in furtherance of its purposes. Contributions to the domestic organization are not earmarked in any manner for a foreign organization and the use of such contributions is subject to control by the domestic organization. For these reasons, the domestic organization is considered to be the recipient of such contributions within the meaning of section 170(c)(2).

Under the provisions of its charter and bylaws, Corp X may make grants to any organization organized and operated exclusively for charitable, scientific, or educational purposes within the meaning of section 501(c)(3). An organization described in that section can be either a domestic or a foreign organization. The operations of Corp X bring it within the purview of example (4) of Revenue Ruling 63-252 except for the manner in which it may solicit contributions for its foreign grants. This raises a question as to whether the contributions are earmarked for the foreign organization so as to prohibit a deduction under section 170.

Revenue Ruling 62-113 holds that where gifts to an organization described in section 170(c) are not earmarked by the donor for a particular individual, the deduction will be allowable where it is established that a gift is intended by the donor for the use of the organization and not as a gift to an individual for whose benefit the amount given may be used by the donee organization. The test in each case is whether the organization has full control of the donated funds, and discretion as to their use, so as to insure that they will be used to carry out its functions and purposes.

In the ruling the domestic corporation could only solicit for specific grants when it had reviewed and approved them as being in furtherance of its purposes. Furthermore, under the terms of its bylaws the domestic corporation may make such solicitations only on the condition that it shall have control and discretion as to the use of the contributions received by it. Therefore, contributions received by the domestic organization from such solicitations were regarded as for the use of the domestic corporation and not for the organization receiving the grant from the domestic organization. Accordingly, contributions paid to the domestic organization under the circumstances described above were deductible, for Federal income tax purposes, in the manner and to the extent provided