

Internal Revenue Service

Department of the Treasury

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Person to Contact:

Telephone Number:

Refer Reply To:
CC:DOM:CORP:1-PLR-116635-99
Date:
March 31, 2000

Re:

Legend:

Tax-Exempt-1 =

Tax-Exempt-2 =

Tax-Exempt-3 =

Tax-Exempt-4 =

Tax-Exempt-5 =

Sub-1 =

Business A =

Business B =

State A =

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Dear :

This is in reply to a letter dated October 6, 1999, in which a ruling is requested with regard to a transaction involving the above taxpayers. Additional information was submitted in letters dated March 23 and 29, 2000. The information submitted is summarized below.

Tax-Exempt-1, a tax exempt entity under § 501(c)(3) of the Internal Revenue Code, is engaged in Business A in State A. As a State A nonprofit corporation, Tax-Exempt-1 is subject to the supervision and control of the State A attorney general.

Tax Exempt 2 is also a § 501(c)(3) tax exempt organization engaged in Business A in State A. Tax-Exempt-2 was formed by Tax-Exempt-1 primarily to help manage three lower tier nonprofit corporations (Tax-Exempts-3, -4, and -5). Tax-Exempt-2 has an emphasis on a more limited geographic area than the area of Tax-Exempt-1. Tax-Exempt-2's Board of Directors is chosen partly by Tax-Exempt-1 and partly by Tax-Exempts-3, -4, and -5, with Tax-Exempt-1 having certain rights of approval and removal with regard to all of Tax-Exempt-2's directors. On the dissolution of Tax-Exempt-2, Tax-Exempt-1 (provided it remains nonprofit) or other nonprofit organizations will receive all of the assets of Tax-Exempt-2. In addition, Tax-Exempt-1 has the right to approve or disapprove most of the significant actions of Tax-Exempt-2, including its dissolution or merger. As a State A nonprofit corporation, Tax-Exempt-2 is subject to the supervision and control of the State A attorney general.

Tax-Exempts-3, -4, and -5, State A nonprofit corporations that are tax exempt under § 501(c)(3), are engaged in Business B in State A. Tax-Exempt-2 is the sole member of Tax-Exempts-3 and -4, and one of two corporate members of Tax-Exempt-5. In conjunction with and subject to the direction of Tax-Exempt-1, Tax-Exempt-2 exercises considerable control over the activities of Tax-Exempts-3, -4, and -5.

Sub-1 is a State A for-profit corporation engaged in acting as a holding company for various other corporations engaged in Business B. All the stock in Sub-1 is held by Tax-Exempt-1. Sub-1 is a "loss corporation" within the meaning of § 382(k)(1).

Tax-Exempt-2 is better positioned than Tax-Exempt-1 to support and oversee Sub-1's activities. Accordingly, it is proposed that Tax-Exempt-1 transfer all the stock in Sub-1 to Tax-Exempt-2.

The following representations have been made in connection with the proposed transaction:

- (a) Except for the transaction described above, there is no plan or intention to

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change: (i) the ownership or membership structure of any entity within the Tax-Exempt-1 group; or (ii) the mission of the various organizations in the group.

- (b) The proposed transaction is being undertaken solely for the purpose of improving administrative efficiency. Neither the proposed transaction, nor any other planned or intended transaction, will in any way have the effect of changing the geographic area, the communities, or the classes of beneficiaries served by Tax-Exempts-1, -2, -3, -4, and -5, or by Sub-1, or by any member of the Tax-Exempt-1 Group.

Based solely on the information submitted and the representations set forth above, we hold as follows:

- (1) The transfer of the Sub-1 stock from Tax-Exempt-1 to Tax-Exempt-2 will not result in an ownership change with regard to Sub-1 (within the meaning of § 382(g) and § 1.382-2T).

Temporary or final regulations pertaining to one or more of the issues addressed in this ruling letter have not yet been adopted. Therefore, the Service may modify or revoke this letter if temporary or final regulations as adopted are inconsistent with any conclusions herein. See section 12.04(4) of Rev. Proc. 2000-1, 2000-1 I.R.B. 4, 46. However, when the criteria in section 12.04 are satisfied, the Service will not revoke or retroactively modify a ruling except in rare or unusual circumstances.

No opinion is expressed about the tax treatment of the transaction under other provisions of the Code and regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered by the above ruling.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

Pursuant to a power of attorney on file in this office, we have sent a copy of this letter to the taxpayer.

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It is important that a copy of this letter be attached to the federal income tax returns of the taxpayers involved for the taxable year in which the transaction covered by this letter is consummated.

Sincerely,

Assistant Chief Counsel (Corporate)

By:

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Assistant to the Chief
Branch 1