

## Internal Revenue Service

## Department of the Treasury

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November 15, 2001

### LEGEND:

Tax-Exempt Organization 1 =

Tax-Exempt Organization 2 =

Company =

LLC =

Affiliate =

Religious Organization 1 =

Religious Organization 2 =

Court =

Business A =

Business B =

Customers =

State X =

Area =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

a =

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Dear :

This is in reply to a letter dated September 17, 2001 in which rulings are requested with regard to certain federal income tax consequences of a proposed transaction involving the above taxpayers. The rulings in this letter are based on the facts and representations submitted under penalties of perjury in support of the request. Verification of that information may be required as part of the audit process. The material information is summarized below.

Tax-Exempt 1 is a State X nonprofit corporation that is described in § 501(c)(3) of the Internal Revenue Code of 1986, as amended ("Code"). Tax-Exempt 1 was founded on Date 1 in order to manage and oversee the Business A activities of its affiliates in the Area as part of the mission of Religious Organization 1. The membership of Tax-Exempt 1 consists of up to 25 individuals. Of these 25 individuals, eight are either affiliated with Religious Organization 2 or appointed by its officers, twelve are community directors of Tax-Exempt 1, and the remainder are elected by such members. Upon the winding up and dissolution of Tax-Exempt 1, any assets remaining after all debts are settled will be distributed to Religious Organization 2, its successor, or as directed by the Court.

Tax-Exempt 2 is a State X nonprofit corporation that is described in § 501(c)(3) of the Code. Tax-Exempt 2 was established on Date 2 to further the Business A mission of Religious Organization 1 in the Area. Tax-Exempt 2 is controlled and managed by a board of 9 directors a majority of which are chosen by Tax-Exempt 1. Tax-Exempt 1 is the sole member of Tax-Exempt 2. Upon the winding up and dissolution of Tax-Exempt 2, any assets remaining after all debts are settled will be distributed to Tax-Exempt 1, its successor, or as directed by the Court.

Company is a State X corporation that was incorporated on Date 3. Company has one class of authorized stock, all of which is owned by Tax-Exempt 2. Prior to Date 4, Company provided Business B services to Customers located throughout the Area. On Date 4, Tax-Exempt 1 consolidated certain Business B services, including those performed by Company, into Affiliate. Since then, Company has performed consulting and support services for Tax-Exempt 1, Tax-Exempt 2 and other Business A affiliates of Tax-Exempt 1. In addition, Company owns a % of LLC, which provides specialized Business A services in the Area. Company is a "loss corporation" within the meaning of § 382(k)(1) of the Code.

Tax-Exempt 1, Tax-Exempt 2, and Company each computes its federal income tax liability using an accrual method of accounting and each files its federal income tax returns on a calendar year basis.

Tax-Exempt 1 is interested in restructuring its Business A network so as to improve administrative efficiency. Company, Tax-Exempt 1, and Tax-Exempt 2 have determined that the direct ownership of Company by Tax-Exempt 1 will improve administrative efficiency. Accordingly, it is proposed that Tax-Exempt 2 distribute all the stock in Company to Tax-Exempt 1.

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Except for the distribution described above, there is no plan or intention to change the ownership or membership structure of any entity within the affiliate group that includes Tax-Exempt 1, Tax-Exempt 2, and Company. Neither the proposed distribution, 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-Exempt 1, Tax-Exempt 2, and Company.

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

- (1) The distribution of the Company stock from Tax-Exempt 2 to Tax- Exempt 1 will not result in an ownership change with regard to Company (within the meaning of § 382(g) of the Code and § 1.382-2T of the Income Tax Regulations).
- (2) The limitation of § 383 will not apply to Company as a result of the distribution.

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. 1, 46. However, when the criteria in section 12.05 are satisfied, the Service will not revoke or retroactively modify a ruling except in rare or unusual circumstances.

A copy of this letter must be attached to the federal income tax return of each taxpayer involved for the taxable year in which the proposed transaction is consummated.

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, a copy of this letter is being sent to the first representative listed on that power of attorney.

Sincerely yours,  
Charles Whedbee  
Senior Technician Reviewer, Branch 5  
Office of Associate Chief Counsel  
(Corporate)