



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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Number: **200621027**

Release Date: 5/26/06

Date: 2/27/2006

Contact Person:

Identification Number:

Telephone Number:

UIL: 501.19-00

513.00-00

Employer Identification Number:

Legend:

A=

B=

D=

E=

F=

X=

Dear _____ :

This is in reply to your requesting rulings concerning the proposed transfer of assets to A from B.

Facts

A is an educational organization described in sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code. A educates the public about the importance of science and technology to the national defense of the USA. Specifically, A focuses on aerospace education for the military and civilian sectors in the USA.

B is described in section 501(c)(19) of the Code as a veteran's organization. B is a large organization, with many thousands of members in many chapters around the USA. Among its activities are: promoting efforts to keep the D adequate, strong, and powerful; to educate members of the D and public about the need for proper development of air power and progress in aviation; to commemorate the memory of those who died defending the USA; and offering group life insurance to its members. B publishes a monthly magazine, and several newsletters. B also offers national symposia on topical aerospace and defense issues. As of X, approximately F% of B's members are past or present members of the Armed Forces.

Over the past year, A and B have reviewed their structures and interactions. Based on this review, the organizations propose to reorganize as described below:

-A will continue its educational activities. A will expand its educational programs by taking over all educational activities owned and operated by B.

-A will change its name to B.

-A will become a membership-based organization, and assume the membership of B, and B's field units.

-B will continue to exist, and continue offering insurance to its veteran members.

-B will transfer its educational programs to A, increasing B's efficient use of its assets, by consolidating its current programs with those offered by A.

-B will strengthen its financial position by focusing on its insurance programs.

-B will change its name to E.

B will transfer to A all of its tangible assets (e.g., cash, bonds, and equities) and intangible assets that relate to B's educational activities. A will then carry on the educational activities previously operated by B.

The organizations anticipate many benefits from the reorganization. These include better serving B's veteran members' insurance needs, and strengthening B's financial position.

B will retain ownership of the B building, and continue marketing insurance to its members. Membership in E would be granted to those qualifying individuals who enroll in an insurance program offered by E. Insurance benefits will not be offered to non-veterans. Membership in E would not be contingent on membership in any other organization.

B will continue to operate with a Board of Trustees ("Board"), elected Officers, and membership. There will be an interim period whereby officers and members of the current Boards of A and B will both serve on a revised Board of B. After this interim period, B will become fully responsive to its members as a fully functional membership organization, with membership voting for B's Board.

Rulings

The following rulings are requested:

1. The transfer of assets by B to A will not adversely impact the tax-exempt status of B under section 501(c)(19) of the Code.
2. The transfer of assets by B to A will not result in unrelated business taxable income to B under Sections 511-513 of the Code.

Law

Section 501(c)(19) of the Code recognizes as exempt from federal income tax entities that are organized and operated exclusively for veterans of the United States Armed Forces, and present members of the United States Armed Forces, no part of the net earnings of which inure to the benefit of any private shareholder or individual. At least seventy-five percent of the total members of the organization must be past or present members of the Armed Forces.

Section 511 of the Code imposes a tax on the unrelated business taxable income (defined in section 512) of organizations described in section 501(c).

Section 512(a)(1) of the Code provides that the term "unrelated business taxable income" means the gross income derived from any unrelated trade or business which it carries on regularly.

Section 512(b)(3) of the Code excludes from unrelated business taxable income rents from real property. Section 513 of the Code defines the term "unrelated trade or business" as one that is not substantially related to the exercise or performance by an organization of its charitable purpose or function constituting the basis for its exemption.

Section 512(b)(5) of the Code excludes from unrelated business taxable income all gains or losses from the sale, exchange, or other disposition of property other than (A) inventory, or (B) property held primarily for sale to customers in the ordinary course of a trade business. This provision also states that there shall be excluded from unrelated business taxable income all gains or losses recognized in connection with the organization's investment activities from the lapse or termination of options to buy or sell securities or real property.

Section 1.501(c)(19)-1(c)(7) of the Income Tax Regulations provides that section 501(c)(19) organizations can provide insurance benefits for their members or dependents of their members, or both of these categories.

Section 1.513-1(c)(1) of the regulations provides that in determining whether a trade or business from which a particular amount of gross income derives is "regularly carried on" within the meaning of section 512 of the Code, the frequency and continuity with which the activities are conducted, and the manner in which they are pursued, are of great importance.

Analysis

1. The transfer of assets by B to A is consistent with the continued tax-exempt status of B under section 501(c)(19) of the Code. B will continue offering insurance to its members, which is a permitted activity for organizations described in section 501(c)(19). See section 1.501(c)(19)-1(c)(7) of the regulations. At least 75% of B's members are past or present members of the Armed Forces, as is required under section 501(c)(19). Insurance benefits will not be offered to non-members. Thus, B will continue to qualify for exemption under section 501(c)(19).

2. The transfer of assets by B to A will not result in unrelated business income subject to tax because the transfer is a unique event, rather than a trade or business "regularly carried on." The transfer is not an ongoing event, and will not continue to occur in the future. Therefore, the transfer is not "regularly carried on" under section 512(a)(1) of the Code and section 1.513-1(c)(1) of the regulations. Also, B will not receive any cash or other type of payment for the transfer of assets to A. This supports the conclusion that the transfer will not result in unrelated business income to B subject to tax under sections 511-513 of the Code.

Conclusion

Accordingly, we rule that:

1. The transfer of assets by B to A will not adversely impact the tax-exempt status of B under section 501(c)(19) of the Code.
2. The transfer of assets by B to A will not result in unrelated business taxable income to B under sections 511-513 of the Code.

This ruling is based on the understanding there will be no material changes in the facts upon which it is based.

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.

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

This ruling will be made available for public inspection under section 6110 of the Code 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.

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,

Steven B. Grodnitzky
Acting Manager
Exempt Organizations
Technical Group 1

Enclosure
Notice 437