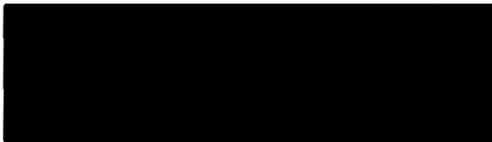


Internal Revenue Service

Department of the Treasury

Washington, DC 20224

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Release Copies to District



Person to Contact:

Telephone Number:

Date 6-29-94

Refer Reply to:

Signature

Date:

APR 26 1994

6/29/94

E.I.N.:
K.D.O.: Los Angeles

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify under that section.

You were originally incorporated under the laws of [redacted] on [redacted]. Your purpose as stated in your articles of incorporation "is to assist individuals, families, couples, adolescents and generally anyone seeking social and psychological counseling services. These services could involve, but [are] not limited to employment, educational, chemical dependency, EAP assistance, referrals and self enhancement skills." To date, you have not conducted any financial or counseling activities.

You state that your objective is to assist [redacted], a privately owned, for profit organization, in educating on chemical dependency and most importantly self enhancement skills to those individuals and their families in pursuit of recovery. You also state that you are a separate business and "will have no relationship [with] to [redacted]." [redacted] will continue to provide counseling services to those people with the financial ability to pay for the services while you will provide services to those who do not have the means to pay.

You will implement several forms of treatment for individuals seeking your services which may entail Urinalysis testing, Psychological testing and Educational testing. These services will be provided by individuals with whom you will finalize contracts in the near future. Urinalysis testing will take place on your premises by [redacted] (the Laboratory). Educational testing will also be conducted on your premises by [redacted]. Psychological testing will be performed by [redacted] of [redacted] at a different location.

[REDACTED]

Your facility is leased from your founder, [REDACTED].

You state that [REDACTED] and [REDACTED] are the only organizations affiliated with you and [REDACTED] and that there are no established contracts/agreements, written or verbal between the organizations.

You will employ the same officers and employees that are currently employed by [REDACTED]. You state that each business will operate separately, therefore, each will hire and pay employees separately for their time of employment. You have established a sliding fee scale for your services.

You anticipate that your sources of financial support will be from donations, state and federal grants and certain fundraising activities.

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations organized and operated exclusively for one or more of the purposes specified therein.

Section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations provides that an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled by such private interests.

Section 513 of the Code defines "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational or other purpose or function constituting the basis for its exemption under section 501, with certain exceptions not here relevant. It further provides that the term "trade or business" has the same meaning it has in section 162, and generally includes any activity carried on for the production of income from the sale of goods or the performance of services.

Section 1.513-1(b) of the regulations provides that the term "trade or business" has the same meaning it has in section 162, and generally includes any activity carried on for the production of

income from the sale of goods or performance of services. It is further provided that activities of producing or distributing goods or performing services from which a particular amount of gross income is derived do not lose identity as trade or business merely because they are carried on within a larger complex of other endeavors which may, or may not be related to the exempt purpose of the organization.

Rev. Rul. 69-266, 1969-1 C.B. 151, provides that an organization formed and controlled by a doctor of medicine, "hired" to conduct research programs consisting of examining and treating patients who are charged the prevailing fees for services rendered, is not exempt under section 501(c)(3) of the Code.

In International Postgraduate Medical Foundation v. Comm., 1989-36, 56 TCM 1140, the court noted that when a for-profit organization benefits substantially from the manner in which the activities of a related organization are carried on, the latter organization is not operated exclusively for exempt purposes within the meaning of section 501(c)(3), even if it furthers other exempt purposes.

An organization is not operated exclusively for charitable purposes, and thus will not qualify for exemption under section 501(c)(3), if it has a single non-charitable purpose that is substantial in nature. This is true regardless of the number or importance of the organization's charitable purposes. Better Business Bureau v. United States, 326 U.S. 278 (1945); Stevens Bros. Foundation, Inc. v. Commissioner, 324 F.2d 633 (8th Cir. 1963), aff'g. 39 T.C. 93 (1962), Cert. denied, 376 U.S. 969 (1964). Operating for the benefit of private parties who are not members of a charitable class constitutes such a substantial nonexempt purpose. Old Dominion Box Co., Inc. v. United States, 477 F.2d 340 (4th Cir. 1973), cert. denied, 413 U.S. 910 (1973).

For federal income tax purposes, a parent corporation and its subsidiary are separate taxable entities so long as the purposes for which the subsidiary is incorporated are the equivalent of business activities or the subsidiary subsequently carries on business activities. Moline Properties, Inc. v. Commissioner, 319 U.S. 436, 438 (1943); Britt v. United States, 431 F.2d 227, 234 (5th Cir. 1970). That is, where a corporation is organized with a

[REDACTED]

all dealings between a charitable organization and its founders or with those in controlling positions, where those controlling an organization operates it in such a manner as to benefit its related business or family purposes, exemption is proscribed by section 1.501(c)(3)-1(d)(1)(ii) of the regulations.

Because we believe that you are organized and operated for the benefit of private individuals, and because your primary activity constitutes a trade or business not related to any exempt purpose, and it also appears that your net earnings inure to the benefit of private individuals, we have concluded that you are not organized or operated exclusively for charitable or educational purposes within the meaning of section 501(c)(3) of the Code. We therefore, can not recognize you as exempt under that section.

Contributions to you are not deductible under section 170 of the Code.

You are required to file federal income tax returns.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days of the date of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If you do not protest this proposed ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgment or decree under this section shall not be issued in any proceeding unless the United States Tax Court, the U.S. Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

[REDACTED]

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director. Thereafter, any questions about your federal income tax status should be addressed to that office. The appropriate State officials will be notified of this action in accordance with section 6104(c) of the Code.

Sincerely yours,

[REDACTED]
Chief, Exempt Organizations
Rulings Branch 3

cc: DD, Los Angeles
Attn: EO Group

cc: w/Form 5998
State officials of [REDACTED]

| Code | Initiator | Reviewer | Reviewer | Reviewer | Reviewer | Reviewer |
|---------|------------|------------|------------|----------|----------|----------|
| | [REDACTED] | [REDACTED] | [REDACTED] | | | |
| Surname | [REDACTED] | [REDACTED] | [REDACTED] | | | |
| Date | 4-18-94 | 4-26-94 | | | | |