

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

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Date 3/1/00

Date: FEB 10 2000

Contact Person: [REDACTED]

ID Number: [REDACTED] 3/26/00

Telephone Number: [REDACTED]

Fax: [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

Employer Identification Number: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(2).

The information submitted indicates that you were incorporated on [REDACTED]. Your certificate of incorporation provides that you were formed for purposes that include the following: To take, buy, purchase, exchange, hire, lease or otherwise acquire real estate and property, either improved or unimproved, and any interest or right therein, and to own, hold, control, maintain, manage and develop the same.

Your properties include two real properties located in [REDACTED] and investments in stocks and bonds. Also, you are a limited partner, with a profit and loss sharing percentage of 0.10% as of 1998, with [REDACTED], a publicly traded limited partnership.

Your primary source of income is rental of real property. Your property is 100% occupied and rented by unrelated commercial and residential tenants. Your other sources of income include dividends, interests, and capital gains from the sale of stocks and bonds.

Your shares of stock are equally owned by three organizations: [REDACTED] (Church), [REDACTED] (Association), and [REDACTED] (Center). You represent that the Church is primarily a place of worship and provides assistance to needy new immigrants. The Association is primarily engaged in providing assistance in language and adult training in the

community. The Center was formed for the purpose of perpetuating the memory and spirit of [REDACTED] and [REDACTED] by encouraging and promoting Christianity and holding meetings and social gatherings. You indicate that the Center is primarily engaged in providing Bible studies.

The Association is recognized as exempt under section 501(c)(4) of the Code per a determination letter dated [REDACTED]. Both the Church and the Center do not have determination letters on tax exemption, but you claim that each were formed prior to October 9, 1969 that qualified them as tax-exempt by the statute.

Your submitted copies of Form 1120 filed for tax years 1996, 1997 and 1998 show that you received an average of 74% of your total income from rent, 13% from dividends and interests, and 13% from capital gain. During the same periods, you received distributions of insignificant amounts from the limited partnership. Also, the filed returns show that funds were used primarily for operating expenses, and for charitable contributions that include \$ [REDACTED] each year to each of your three shareholders. You reported net income of \$ [REDACTED], \$ [REDACTED], and \$ [REDACTED] in tax years 1996, 1997 and 1998, respectively. Your balance sheet as of December 31, 1998 shows retained earnings with an accumulated balance of \$ [REDACTED].

Section 501(c)(2) of the Code provides exemption to corporations organized for the exclusive purposes of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under this section.

Section 1.501(c)(2)-1(b) of the Income Tax Regulations provides that a corporation described in section 501(c)(2) cannot accumulate income and retain its exemption, but must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under section 501(a).

Rev. Rul. 58-566, 1958-2 C.B. 261, holds that a corporation will not be considered organized as a holding company within the meaning of section 501(c)(2) of the Internal Revenue Code of 1954 where it has broad powers and business purposes far beyond the scope necessary to a holding company.

Rev. Rul. 76-415, 1976-2 C.B. 255, as clarified by Rev. Rul. 80-59, 1980-1 C.B. 191, holds that for the purpose of filing Form 4361, Application for Exemption from Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners, an ordained, commissioned or licensed minister of a church is eligible to exercise the election contained in section 1402(e) only if the minister is able to establish that the church qualifies as an organization exempt from income tax under section 501(a) as a religious organization described in section 501(c)(3) and that the

church is described in section 170(b)(1)(A)(i).

In our evaluation of the information you submitted, we find that your certificate of incorporation contains purposes not limited to holding title to property, collecting income therefrom, and turning over the net income to a qualified shareholder. Similar to the organization described in Rev. Rul. 58-566, *supra*, you are not exclusively organized for exemption under section 501(c)(2) of the Code because you have broad purposes beyond the requirements of a holding company described in section 501(c)(2).

While organizations claiming church status and the corresponding benefits that the Code accords to churches are not obligated to file Form 1023, they do have the affirmative obligation to demonstrate that they are described in sections 501(c)(3) and 170(b)(1)(A)(i), and thus entitled to such benefits. See Rev. Rul. 76-415, cited above. Likewise, non-church organizations exempted from the notice requirements of section 508(a) are likewise obligated to demonstrate that they are described in section 501(c)(3).

Because neither the Church nor the Center has been recognized as exempt from federal income tax, and because no information has been submitted to demonstrate that either entity is described in section 501(c) of the Code, we are unable to conclude that all of your shareholders are exempt under section 501(a), as required by section 501(c)(2).

Also, we find that you do not distribute your entire net income to shareholders. While we acknowledge that you distributed some funds to your shareholders, which you characterized as charitable contributions, the amounts you distributed were not commensurate with your earnings so as to be characterized as income distribution. For example, your contributions of \$[REDACTED] to each shareholder each year in 1996, 1997 and 1998 represents merely 1%, 6% and 7%, of your net income in 1996, 1997 and 1998, respectively. Also, your substantial amount of accumulated retained earnings demonstrates the non-distribution of earnings from operations in prior years. Therefore, you fail to meet the requirements for exemption under section 501(c)(2) of the Code pursuant to section 1.501(c)(2)-1(b) of the regulations.

Moreover, a title-holding corporation that is owned by more than one parent is not described in section 501(c)(2) of the Code. The presence of multiple parents is evidence of a pooling of assets for a cooperative venture. As a result, the fundamental character of the title holding company is changed. It no longer merely holds title to property passively but instead is actively engaged in the conduct of a trade or business. Consequently, the purpose of the organization and the end to which its resources are dedicated is the conduct of investment activities and the maximization of gains and profits for the financial benefit of the investing charities, not as beneficiaries of a charity or charitable trust, but as owners and investors.

Based on the foregoing, we conclude that you do not qualify for exemption as an organization described in section 501(c)(2) of the Code and must continue to file federal income tax returns.

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

If we do not hear from you within 30 days, this ruling will become final and a copy will be forwarded to the Ohio Tax Exempt and Government Entities (TE/GE) office. Thereafter, any questions about your federal income tax status should be directed to that office, either by calling 877-829-5500 (a toll free number) or sending correspondence to: Internal Revenue Service, TE/GE Customer Service, P.O. Box 2508, Cincinnati, OH 45201. The appropriate State Officials will be notified of this action in accordance with Code section 6104(c).

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

Internal Revenue Service
1111 Constitution Ave, NW
Washington, D.C. 20224
Attn: [REDACTED]
T:EO:RA:T:3, Room 6137

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

(signed) [REDACTED]

Robert C. Harper, Jr.
Manager, Exempt Organizations
Technical Group 3

Form 1957-A	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
CODE	T:EO:RA:T:3	T:EO:RA:T-3				
Surname	[REDACTED]	[REDACTED]				
Date	02/10/00	2/10/00				