

An exempt title-holding corporation will not continue to qualify for exemption when one of the organizations to which it makes distributions of income ceases to qualify for exemption under section 501(a) of the Code.

Advice has been requested whether, under the circumstances described below, an organization exempt from Federal income tax under section 501(c)(2) of the Internal Revenue Code of 1954 continues to qualify for exemption.

The organization, a title-holding corporation, was organized and operated for the exclusive purpose of holding title to real property, collecting income therefrom, and turning over the entire amount thereof, less expenses, equally to two organizations that were exempt under section 501(a) of the Code.

At the end of the third year of operation of the title-holding corporation, one of the organizations to which it was required to make distributions of income ceased to qualify for exemption under section 501(a). However, the title-holding corporation continued to make distributions of income to both organizations.

Section 501(c)(2) of the Code provides for the exemption from Federal income tax of corporations organized for the exclusive purpose 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 section 501(a) of the Code.

After its third year of operation, the title-holding corporation did not turn over its entire income, less expenses, to an organization or organizations exempt under section 501(a) of the Code, since one of the two organizations to which it distributed its income had ceased to qualify for such exemption.

Accordingly, the title-holding corporation does not continue to qualify for exemption from Federal income tax under section 501(c)(2) of the Code beyond its third year of operation.