

An exempt title-holding corporation is subject to the unrelated business income tax under section 511 of the Code if one of its parent organizations is subject to the tax.

Advice has been requested whether under the circumstances described below a title-holding corporation that is exempt from Federal income tax under section 501(c)(2) of the Internal Revenue Code of 1954 is subject to the unrelated business income tax imposed by section 511 of the Code.

All of the corporation's capital stock is owned by its two parent organizations. One of the parent organizations is subject to the unrelated business income tax imposed by section 511 of the Code, but the other is not. The corporation purchased a building with funds it borrowed from commercial sources. The building has been leased to a commercial tenant on terms which created a business lease within the meaning of section 514 of the Code.

Section 511(a) of the Code imposes a tax on unrelated business taxable income of certain organizations, otherwise exempt from tax under section 501(a) of the Code. Such unrelated business taxable income includes income from a business lease as defined in section 514 of the Code.

Section 1.501(c)(2)-1(a) of the Income Tax Regulations provides that a corporation exempt from tax under section 501(c)(2) is taxable upon its unrelated business taxable income if the income is payable to an organization which is itself subject to the tax imposed by section 511.

The question presented here is whether the corporation is taxable on the income from the business lease payable to both parents.

This corporation is taxable upon its unrelated business taxable income from the business lease since the income is payable to an organization that is subject to the tax imposed by section 511 of the Code. The fact that one of the corporation's parent organizations is not subject to section 511 of the Code does not relieve the corporation of its obligation of paying such tax on its unrelated business taxable income with respect to payments to that parent.

Accordingly, the corporation is subject to the unrelated business income tax imposed by section 511 of the Code since one of its exempt parent organizations is subject to such tax.