

Unrelated business income; prospective revocation of exemption. An organization whose exemption from tax under section 501(a) of the Code is revoked prospectively under the authority of section 7805(b) is subject to the unrelated business income tax for the period covered by section 7805(b) relief.

Advice has been requested whether an organization, whose prior ruling letter recognizing exemption from Federal income tax under section 501(a) of the Internal Revenue Code of 1954 has been revoked with prospective effect by virtue of section 7805(b), is subject to the unrelated business income tax imposed by section 511 for the period covered by section 7805(b) relief.

The organization regularly carried on a business activity not substantially related (other than through the production of income) to the performance of the purpose on which its former exemption letter under section 501(a) of the Code was based. The organization's exemption letter made no determination with respect to liability for tax on unrelated business income under section 511. Its tax liability under section 511 for the period covered by section 7805(b) relief is less than the income tax liability would have been if the organization had not been treated as exempt for the period involved.

Section 511(a) of the Code imposes a tax on the unrelated business taxable income of certain organizations exempt from Federal income tax by reason of section 501(a).

Section 7805(b) of the Code provides that the Secretary or his delegate may prescribe the extent, if any, to which any ruling or regulation, relating to the internal revenue laws, shall be applied without retroactive effect.

When section 7805(b) of the Code is applied in the revocation of an organization's exemption letter, the revocation is effective at a later date than would be the case if section 7805(b) relief were not applied. Until that effective date, the organization is treated as though it were exempt from Federal income tax under section 501(a).

Accordingly, the organization, under the circumstances described, is subject to the unrelated business income tax imposed by section 511 of the Code for the period covered by section 7805(b) relief.