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

Date: MAR 20 2000

Contact Person:

UIL: 501.03-11

ID Number:

OP: E: ED: T1

Telephone Number:

Employer Identification Number:
Key District Office:

Legend :

J =
K =
L =

Dear Sir or Madam:

This is in response to a letter from your authorized representative requesting a series of rulings on your behalf regarding the tax consequences associated with the transaction described below.

J is recognized as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is classified as a nonprivate foundation under section 509(a) of the Code. It is dedicated to improving access to affordable quality health care by providing educational research to those administering health programs and benefits. It conducts research and convenes major public conferences which educate and communicate information on health issues.

K is recognized as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is classified as a nonprivate foundation under section 509(a) of the Code. It educates the public and provides research assistance to improve health services research. It conducts conferences and general education of the public in the area of health services research.

J and K propose to merge with K being the surviving entity, changing its name to L and amending its Articles of Incorporation accordingly. J will cease to exist. After the merger, L will operate for the combined purposes of the former constituent entities.

You have requested the following rulings in connection with this transaction:

(1) That the merger activities described will not adversely affect the tax-exempt status under section 501(c)(3) of the Code of L as the surviving corporation.

(2) That the merger and/or any transaction related thereto will not adversely affect the public charity status of L under sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code and thus L will not be a private foundation under section 509(a) of the Code.

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(3) Any transfers and distributions of property from J to K or L will not result in unrelated business taxable income to K or L within the meaning of sections 511 through 514 of the Code.

Section 501(a) of the Code provides an exemption from federal income tax for organizations described in section 501(c)(3), including organizations that are organized and operated exclusively for charitable, educational or scientific purposes.

Section 1.501(c)(3)-1(d)(3) of the Income Tax Regulations defines the term "educational", as used in section 501(c)(3) of the Code, as relating to the instruction of the public on subjects useful to the individual and beneficial to the community.

Section 1.501(c)(3)-1(d)(5) of the regulations states that the term "scientific", as used in section 501(c)(3) of the Code, includes the carrying on of scientific research in the public interest. Scientific research will be regarded as carried on in the public interest if such research is directed toward benefitting the public.

Section 511(a) of the Code imposes a tax on the unrelated business income of organizations described in section 501(c).

Section 512(a)(1) of the Code defines unrelated business taxable income as the gross income derived by an organization from any unrelated trade or business regularly carried on by it, less the allowable deductions which are directly connected with the carrying on of the trade or business, with certain modifications.

Section 513(a) 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 the organization for funds or the use it makes of the profits derived) to the exercise of the organization's exempt purposes or functions.

Section 1.513-1(d)(2) of the regulations provides, in part, that a trade or business is related to exempt purposes only where the conduct of the business activities has a causal relationship to the achievement of exempt purposes; and it is substantially related for purposes of section 513 of the Code only if the causal relationship is a substantial one. Thus, for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of exempt purposes.

Contributions to organizations exempt from federal income tax under section 501(c)(3) of the Code do not fall within the definition of unrelated business income under section 512, nor create taxable gain or loss to the transferor or transferee.

L will not adversely affect its tax exempt status under section 501(c)(3) of the Code by the proposed transactions because it will continue to promote educational and scientific purposes. The transfer of assets or distributions of property pursuant to the merger will not result in unrelated business taxable income because these transfers will be in furtherance of tax-exempt purposes. L will continue to qualify as a nonprivate foundation under sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code because the source of its income will not change.

Accordingly, based on all the facts and circumstances described above, we rule as follows:

- (1) That the merger activities described will not adversely affect the tax-exempt status under section 501(c)(3) of the Code of L as the surviving corporation.
- (2) That the merger and/or any transaction related thereto will not adversely affect the public charity status of L under sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code and thus L will not be a private foundation under section 509(a) of the Code.
- (3) Any transfers and distributions of property from J to K or L will not result in unrelated business taxable income to K or L within the meaning of sections 511 through 514 of the Code.

These rulings are based on the understanding that there will be no material changes in the facts upon which they are based.

These rulings are directed only to the organization that requested them. Section 6110(j)(3) of the Code provides that they may not be used or cited by others as precedent.

These rulings do not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described.

We are informing your key District Director of this action. Please keep a copy of these rulings in your permanent records.

Sincerely,



Marvin Friedlander
Manager, Exempt Organizations
Technical Group 1