



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

200043055

AUG 8 2000

Uniform Issue List No. 414.08-00

T:EP:RA:TI

ATTN: *****

Legend:

- Church A = *****
- Organization A = *****
- Division B = *****

- Subdivision C = *****

- Subdivision D = *****
- Corporation E = *****

- Hospital F = *****

- Employer G = *****

- State H = *****
- City I = *****
- Plan X = *****

- Yearbook = *****

Dear Sirs/Madams:

This is in response to a letter dated November 4, 1999, as supplemented by additional correspondence dated April 12 and May 30, 2000, in which your authorized representatives requested rulings on your behalf under section 414(e) of the Internal Revenue Code.

In support of your ruling requests you have submitted the following representations, statements, and information:

Church A ("the Church") is an international religious entity consisting of various organizations and institutions, including those described below. Organization A is an international religious entity consisting of a central administrative organization and numerous affiliated institutions worldwide. As stated in its Constitution and its Mission Statement, the teachings, tenets and core beliefs of the Church, unchanged since ****, include: (1) the spread of the gospel of Jesus Christ and the commandments of God, (2) teaching, and the acknowledgement that development of mind and character is essential to God's redemptive plan, and (3) healing and the affirmation of the biblical emphasis on the well-being of the whole person.

The Church is organized hierarchically and geographically, with Organization A as its worldwide coordinating institution, and the Divisions (such as Division B which encompasses the United States and Canada) providing similar administrative services in more specific geographic regions. Various subdivisions such as Subdivision C and Subdivision D are arrayed in limited geographic areas, or in localities where they support local churches and other Church-affiliated organizations and institutions.

In addition to, and in conjunction with its religious functions, the Church sponsors and oversees health care networks and institutions in many countries. In its Mission Statement, the Church sets as a priority the affirmation of the biblical emphasis on the well being of the whole person, preservation of health, and the healing of the sick. The Division B policy statement for Church-affiliated health care institutions provides that such institutions function as an integral part of the total ministry of the Church and follow Church standards including maintaining the sacredness of the Sabbath. This policy statement further provides that health care policies and medical procedures must always reflect a high regard and concern for the value of human life as well as individual dignity.

In ****, ****, and ****, the Internal Revenue Service issued a "group exemption" letter to the Church. That letter concluded that the Church, its various subordinate regional and local divisions, and its local affiliated churches and auxiliary organizations, as listed either in the Church's Directory for United States and Canada, or in its Yearbook, are organizations described in section 501(c)(3) of the Code and exempt from tax under section 501(a). You represent that most of the Church's health care organizations throughout the United States are organizations included in, or covered by, the Church's group exemption letter. The Church is required to furnish, on an

annual basis, lists of organizations recognized as Church-affiliated during the previous year, and lists of any other organizations no longer affiliated with the Church. The lists are to be accompanied by a sworn statement from one of the Church's principal officers stating that information on which the exemption is granted applies to the newly listed organizations.

Corporation E is a not-for-profit corporation chartered under the laws of State H. As required by its Articles of Incorporation, members of Corporation E also must be members in good standing of the Church. You represent that as a result of inclusion in the Church's group exemption letter, Corporation E is an organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a). Corporation E's general and primary purpose is to promote, enhance, and coordinate the Church's health care, educational and research missions in the City I metropolitan area.

Hospital F is an acute care hospital chartered as a not-for-profit corporation in State H and located in City I. You represent that Hospital F is an organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a) by virtue of its inclusion in the Church's group exemption letter described above. Hospital F is affiliated with Corporation E through a common mission and the interrelationship existing between the corporate members and boards of trustees of each organization; the individuals serving on Corporation E's Board of Trustees are the corporate members of Hospital F. Hospital F functions as an integral part of the Church's health care mission, dedicated to serving the City I community. Of the eighteen members of Hospital F's Board of Trustees, six are *ex officio* officers in various Church divisions and subdivisions. Of the remaining twelve members of the Board, six must be members in good standing of the Church. (By letter dated *****, ****, the Internal Revenue Service ruled that the retirement plan maintained by Hospital F is a church plan within the meaning of section 414(e) of the Code.)

Employer G ("Employer") is a State H professional corporation that owns and manages physicians' practices on behalf of Hospital F. This Employer exists solely to provide physicians to perform professional medical services in the area of Hospital F. Under State H law, a professional corporation's shareholders must be individuals licensed to practice in the particular profession, in this case medicine. The Employer's sole shareholder is an M.D. who has been selected specifically for this purpose by Hospital F's Board of Trustees. The shareholder served until recently as the President of the Employer, and currently serves as Hospital F's Vice President for Medical Integration. Pursuant to an amended and restated "Share Control Agreement" between the shareholder and Hospital F:

1. The shareholder may only elect persons approved by Hospital F as directors of the Employer;
2. The shareholder can approve or authorize a contract, action, or transaction only with the prior written consent of Hospital F;
3. The Employer's shareholder is required to provide a first right of purchase to a person designated by Hospital F to purchase any or all shares of the Employer's stock if the shareholder ceases to be affiliated with Hospital F or if the shareholder desires to sell, transfer, or otherwise convey any or all of such shares;
4. The shareholder is required to vote each share of the Employer's stock only as approved or directed in advance by Hospital F; and
5. Hospital F has the authority to require the shareholder to initiate any and all actions as to the election and removal of directors of the Employer.

By letter dated *****, ****, the Service determined that the Employer was an organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a).

As part of its program to provide quality health-care to the community it serves, the Employer, in 1989, established Plan X for the benefit of employees and their beneficiaries. Plan X is intended to be a qualified profit sharing plan under section 401(a) of the Code. A portion of the Employer's contributions to Plan X are conditioned upon an employee making an elective deferral into a separate tax-sheltered annuity program established and maintained by the Employer under section 403(b) of the Code. In addition to the Employer's regular profit sharing contributions, Plan X contains the Employer match for the elective deferrals made by the employee into the tax-sheltered annuity program.

In their November 4, 1999 letter on your behalf, your authorized representatives stated that the Employer administered the Plan. In subsequent correspondence dated May 30, 2000, your representatives wrote that, effective May 1, 2000, the Employer's Board of Directors adopted a resolution naming Hospital F's Plan Administrative Committee (the "Committee") as the Administrator of Plan X. The Committee in question was established by Corporation E, primarily to act as Plan Administrator for plans established and maintained for employees of Hospital F and their beneficiaries, and for the employees and beneficiaries of other Church-affiliated organizations within the Corporation E healthcare system. Members of the Committee are appointed by, and serve at the pleasure of, the Board of Trustees of Corporation E. Generally, all Committee members also are members in good standing of the Church.

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Based on the foregoing statements and representations you request a ruling that Plan X is a church plan within the meaning of section 414(e) of the Code.

To qualify under section 401(a) of the Code, an employees' plan generally must, among other requirements, meet the minimum participation standards of section 410 and the minimum vesting standards of section 411. Qualified pension plans also must meet the minimum funding standards of section 412. Each of these sections, however, contains an exception for a "church plan" as defined in section 414(e), unless an election has been made in accordance with section 410(d). See sections 410(c)(1)(B), 411(e)(1)(B) and 412(h)(4).

Section 414(e)(1) of the Code generally defines a church plan as a plan established and maintained for its employees (or their beneficiaries) by a church or by a convention or association of churches which is exempt from taxation under section 501.

Section 414(e)(3)(A) of the Code provides that a plan will be treated as a church plan if it is maintained by an organization, whether a civil law corporation or otherwise, the principal purpose or function of which is the administration or funding of a plan or program for the provision of retirement benefits or welfare benefits, or both, for the employees of a church or a convention or association of churches, if such organization is controlled by or associated with a church or a convention or association of churches.

Section 414(e)(3)(B) of the Code defines "employee" to include a duly ordained, commissioned, or licensed minister of a church in the exercise of his or her ministry, regardless of the source of his or her compensation, and an employee of an organization, whether a civil law corporation or otherwise, which is exempt from tax under section 501 of the Code, and which is controlled by or associated with a church or a convention or association of churches.

Section 414(e)(3)(C) of the Code provides that a church or a convention or association of churches which is exempt from tax under section 501 shall be deemed the employer of any individual included as an employee under subparagraph (B).

Section 414(e)(3)(D) of the Code provides that an organization, whether a civil law corporation or otherwise, is "associated" with a church or convention or association of churches if the organization shares common religious bonds and convictions with that church or convention or association of churches.

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In order for an organization that is not itself a church or convention or association of churches to have a church plan under section 414(e) of the Code, that organization must establish that its employees are employees or deemed employees of the church or convention or association of churches under section 414(e)(3)(B). Employees of any organization maintaining a plan are considered to be church employees if the organization: (1) is exempt from tax under section 501 of the Code; (2) is controlled by or associated with a church or convention or association of churches; and (3) provides for administration or funding (or both) of the plan by an organization described in section 414(e)(3)(A) of the Code.

In this case the Church is a part of an organization that affirms as one of its core beliefs and priorities the biblical emphasis on the well being of the whole person, preservation of health, and the healing of the sick. In furtherance of this belief, the Church sponsors and oversees health care networks and institutions in many countries, including Corporation E and its affiliated and subsidiary health care institutions such as Hospital F and the Employer. The establishment and maintenance of such health care networks and institutions are integral parts of the total ministry of the Church. The Church's policy statement for health care institutions in North America provides that they follow the teachings and tenets of the Church in all matters, while insisting that health care policies and procedures reflect a high regard and concern for the value of human life and individual dignity.

Corporation E, Hospital F, and the Employer, as described above, embody the Church's health care mission in City I metropolitan area of State H. Corporation E and Hospital F are not-for-profit corporations chartered under the laws of State H, and the Employer is a professional corporation under State H laws. All three corporate entities are organizations determined by the Service to be described in section 501(c)(3) of the Code and exempt from tax under section 501(a). Corporation E and Hospital F are conferred tax-exempt status by virtue of being listed in the Church's Yearbook; they are covered, therefore, by the group exemption letter maintained by Organization A on behalf of other listed organizations. The Employer has received a separate determination letter from the Service pertaining to its tax-exempt status under section 501(c)(3) and 501(a) of the Code.

Further, the respective charters, articles of incorporation and by-laws of Corporation E and Hospital F mandate that substantial majorities of the corporate members and corporate trustees also be either Church officials or Church members in good standing. Finally, the Share Control Agreement, described above, between Hospital F and the Employer guarantees that the Employer, as a professional

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corporation, will remain under the control of Hospital F's Board of Trustees and, therefore, of Church officials and individuals with strong Church ties.

Accordingly, based upon the Employer's tax-exempt status under section 501(a) of the Code, and upon the numerous religious, individual, and organizational connections between the Church, Corporation E, Hospital F, and the Employer, it is concluded that the Employer shares common religious bonds with individuals and institutions of the Church. It is further concluded that the Employer is, therefore, associated with the Church within the meaning of section 414(e)(3)(D) of the Code and for purposes of the church plan rules.

Moreover, because Employer G is associated with the Church under section 414(e)(3)(D) of the Code, its employees are employed by an organization which is exempt from tax under section 501(a) and controlled by or associated with a church or convention or association of churches. Accordingly, it is concluded that employees of the Employer are deemed to be employees of the Church under the rules of section 414(e)(3)(B)(ii). Conversely, the Church is considered to be the employer of Employer G's employees under section 414(e)(3)(C).

Having established that Employer G's employees are considered to be employees of Church A, the remaining question is whether the Hospital F Plan Administrative Committee is an organization, controlled by or associated with a church or convention or association of churches, that has as its principal purpose or function the administration or funding of a plan or plans for the provision of retirement benefits or welfare benefits, or both, within the meaning of section 414(e)(3)(A) of the Code.

The Plan Administrative Committee was established by Corporation E, primarily to act as Plan Administrator for plans established and maintained for employees of Hospital F and their beneficiaries. Members of the Committee are appointed by, and serve at the pleasure of, the Board of Trustees of Corporation E. Generally, all Committee members also are members in good standing of the Church. The addition of administrative duties regarding Plan X in this case does not change the fact that the Committee is an organization the principal purpose or function of which is the administration or funding of a plan or plans for the provision of retirement benefits for individuals who are deemed to be employees of a church a convention or association of churches. It is concluded, therefore, that the Plan Administration Committee is an organization that meets the requirements of section 414(e)(3)(A) of the Code and the church plan rules.

Accordingly it is ruled that Plan X is a church plan within the meaning of section 414(e) of the Code.

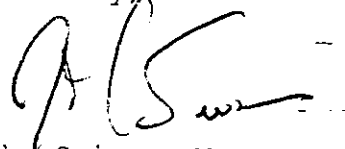
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This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent. Should you have any questions pertaining to this ruling letter or the documents enclosed with it, you may contact Mr. Edward Weisel (ID No. 50-07738) of this office at 202-622-6086.

Also, this ruling assumes that Plan X is a qualified plan under section 401(a) of the Code. However, the ruling expresses no opinion as to whether Plan X, as described herein, continues to satisfy all qualification requirements. The determination as to whether a plan is qualified under section 401(a) is under the jurisdiction of the Manager, Employee Plans Determinations Programs, Cincinnati, Ohio, and the appropriate Area Manager of the Employee Plans Examination Division.

A copy of this ruling has been sent to your authorized representatives in accordance with a power of attorney on file in this office.

Sincerely,



John Swieca, Manager
Employee Plans Technical Group 1
Tax Exempt and Government
Entities Division

Attachments:

- ▶ Deleted Copy of this Letter Ruling
- ▶ Copy of Cover Letter to Authorized Representative
- ▶ Notice 437, Notice of Intent to Disclose

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