



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

OFFICE OF THE CHIEF COUNSEL

August 21, 2014

Number: **2014-0034**
Release Date: 9/26/2014

CC:CORP:B03
GENIN-119084-14

UIL: 336.00-00, 337.00-00

Dear _____ :

We respond to your request, dated March 27, 2014, for an information letter regarding the general federal income tax consequences of a state law conversion of a corporation that is taxable under Subchapter C of the Internal Revenue Code of 1986, as amended (the Code), for federal tax purposes. Specifically, you ask about the federal income tax consequences to a for-profit corporation under state law (Taxpayer) that seeks to convert into a non-profit corporation under state law. You posit that the conversion may be accomplished under applicable state law by the Taxpayer's filing of amended articles of incorporation. You also ask if the consequences are affected by the fact that the Subchapter C corporation is a wholly owned subsidiary of an organization that is exempt from federal taxation under section 501(c)(3) of the Code.

In general, state non-profit corporations are exempt from state and local income and real property taxation. Laws under various states provide that, in certain circumstances, a taxable business corporation may convert into a non-profit corporation in order to be exempt from state and local taxation. In some states, this conversion can be effected by amending the corporation's certificate of incorporation and its bylaws to qualify as a non-profit corporation under state law and filing the required certificates with the state in accordance with the applicable sections of that state's corporation law.

For federal tax purposes, if a Taxpayer has a plan or intention to liquidate into its parent corporation that is exempt from federal taxation or itself requests recognition of exemption from federal income tax under section 501 or any other provision of the Code that would cause it to become a "tax exempt" entity within the meaning of section 1.337(d)-4(c)(2) of the Income Tax Regulations, such change will affect its federal income tax consequences.

Generally under the Code, a corporation must recognize gain or loss on a liquidating sale or distribution of its assets (section 336(a)). Under section 337(a), there is an exception to this general rule for a corporation that distributes property to an 80 percent corporate distributee in a complete liquidation to which section 332 applies. Section 332 provides that no gain or loss shall be recognized by a corporation that receives property distributed in the complete liquidation of its subsidiary. However, the exception under section 337(a) is not applicable when the 80 percent distributee is an organization that is exempt from federal taxation (section 337(b)(2)(A)).

Alternatively, if there is not a liquidation but a change in status for federal tax purposes, the regulations under section 337 would treat a taxable corporation's change in status to a tax-exempt entity as an asset transfer – as if the corporation transferred all of its assets to the tax-exempt entity immediately before the change in status became effective – and require the taxable corporation to recognize gain or loss immediately before the deemed transfer as if the assets transferred were sold at their fair market values (section 1.337(d)-4(a)(2) and 1.337(d)-4(a)(1)). The tax-exempt entities to which the regulations apply are defined in section 1.337(d)-4(c)(2). However, a corporation that remains taxable under the Code for federal income tax purposes despite a change in tax status under state law is not included in the definition of a tax-exempt entity to which section 1.337(d)-4 applies (section 1.337(d)-4(c)(2)(i)-(viii)).

Accordingly, the conversion of a Subchapter C corporation from a for-profit corporation to a non-profit corporation for state law purposes but that remains taxable for federal tax law purposes will not recognize gain or loss under sections 336 and 337.

We intend for this letter to be for informational purposes only, to call your attention to certain general principles of the federal tax law, and not to constitute a ruling (see Rev. Proc. 2014-1, section 2.04, 2014-1 I.R.B. 7 (January 2, 2014)). If you have any additional questions, please contact our office at .

Sincerely,

Filiz A. Serbes
Chief, Branch 3
Office of Associate Chief Counsel (Corporate)