

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

Telephone Number:

Refer Reply To:

CC:TEGE:EB:HW

PLR-T-103513-15

Date: June 15, 2015

Legend:

Taxpayer =

Bankruptcy Trust =

Bankruptcy Court =

Company A =

Company B =

Company C =

Plan =

Date X =

Year 1 =

Year 2 =

Year 3 =

Dear :

This responds to your letter dated May 9, 2014, requesting a ruling under section 512 of the Internal Revenue Code (Code) regarding the transfer of Taxpayer's remaining assets to various charitable organizations upon Taxpayer's termination.

FACTS

Taxpayer received a determination letter, dated Date X, stating that it is a voluntary employees' beneficiary association under section 501(c)(9) of the Code. Bankruptcy Trust is a business trust established pursuant to an order of the Bankruptcy Court in connection with the insolvency of Company A. Company A was formed after its former parent company, Company B, went bankrupt in Year 1. Company A and its affiliates, including Company C, filed for Chapter 11 protection in Bankruptcy Court in Year 2. In Year 3, Bankruptcy Trust took over the Company A bankruptcy estate.

Company B provided welfare benefits to its employees through Plan, including medical benefits, group term life insurance benefits, severance benefits, and disability benefits ("Plan Benefits"). Company B established Taxpayer to hold and invest the contributions it made and to pay or provide Plan Benefits to employees. Bankruptcy Trust is the successor in interest and assignee of certain assets and obligations of Company A, including those relating to Plan.

Taxpayer intends to terminate and transfer all remaining trust assets, after payment of administrative expenses related to the termination, to various charitable organizations. Taxpayer represents that there are no remaining participants in Plan, all benefits owed under Plan have been paid, and there are no outstanding benefit claims or liabilities.

RULING REQUESTED

Taxpayer has requested a ruling that the transfer of the remaining trust assets to charitable organizations will not result in unrelated business taxable income to Taxpayer.

LAW

Section 511 of the Code imposes a tax on the unrelated business taxable income of exempt organizations, including organizations described in section 501(c)(9).

Section 512(a)(1) provides, generally, that the term "unrelated business taxable income" means the gross income derived by any organization from any unrelated trade or business (as defined in section 513) regularly carried on by it, less the deductions allowed by Chapter 1 which are directly connected with the carrying on of such trade or business, both computed with the modifications provided in section 512(b).

Section 512(a)(3)(A) provides that, in the case of an organization described in section 501(c)(9), the term "unrelated business taxable income" means the gross income (excluding any exempt function income), less the deductions allowed by Chapter 1 which are directly connected with the production of the gross income (excluding exempt function income), both computed with modifications.

Section 512(a)(3)(B) provides that the term "exempt function income" means the gross income from dues, fees, charges, or similar amounts paid by members of the organization as consideration for providing the members or their dependents or guests goods, facilities, or services in furtherance of the purposes constituting the basis for the exemption of the organization to which such income is paid. The term also means all income (other than an amount equal to the gross income derived from any unrelated trade or business regularly carried on by such organization computed as if the organization were subject to paragraph (1)), which is set aside—

- (i) for a purpose specified in section 170(c)(4), or
- (ii) in the case of an organization described in paragraph (9), (17), or (20) of section 501(c), to provide for the payment of life, sick, accident, or other benefits,

including reasonable costs of administration directly connected with a purpose described in clause (i) or (ii). If during the taxable year, an amount which is attributable to income so set aside is used for a purpose other than that described in clause (i) or (ii), the amount shall be included, under subparagraph (A), in unrelated business taxable income for the taxable year.

Section 512(a)(3)(E) limits amounts set aside to provide benefits described in section 512(a)(3)(B)(i) that can be treated as exempt function income.

Section 170(c)(4) provides that the term "charitable contribution" includes a contribution or gift by an individual to or for the use of a domestic fraternal society, order, or association, operating under the lodge system, but only if such contribution or gift is to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

ANALYSIS AND CONCLUSION

The provisions of section 512(a)(3)(B) of the Code indicate that the income of an organization exempt under section 501(c)(9) set aside for a purpose specified in section 170(c)(4) is exempt function income and, therefore, is excluded in computing the organization's unrelated business taxable income. Since the income generated by Taxpayer's assets will be transferred to charitable organizations for purposes specified in section 170(c)(4), the income is considered exempt function income for purposes of section 512(a)(3), and is excluded from gross income in determining the unrelated business taxable income of Taxpayer. Thus, the transfer of the remaining trust assets from Taxpayer to charitable organizations will not, in and of itself, result in unrelated business taxable income to Taxpayer.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Specifically, this ruling does not address tax consequences to Bankruptcy Trust.

Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

The rulings contained in this letter are based upon information and representations submitted by Taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,

/S/

Janet A. Laufer
Senior Technician Reviewer
Health & Welfare Branch
Office of Associate Chief Counsel
(Tax Exempt & Government Entities)