

their children education, obtain medical benefits, and provide other basic needs to their families.

Benefits are provided through: (1) gratuities, which are need-based grants, based on an application process with a biannual distribution; (2) emergency gratuities, which are need-based grants for unforeseen circumstances and require proof of income for yearly requests surpassing a threshold; (3) small fixed-sum annual stipends; and (4) a fixed-sum death benefit payment upon the death of a clergy member to enable the clergy member's family to take care of expenses incurred immediately upon death, including but not limited to burial expenses.

The small fixed-sum annual stipends, which Taxpayer refers to as annuities, are distributed in each year following the death of a clergy member. The amount is aggregate and not per beneficiary. Annuities may not be subject to any testamentary disposition, and entitlement to an annuity ends upon the beneficiary's death. Annuities may be apportioned among the children of a deceased clergy member, in addition to the beneficiary.

Death benefits are a fixed-sum mandatory payment to beneficiaries of clergy members that are distributed without Board discretion, except when apportioning the benefit among multiple beneficiaries on a case-by-case basis. Currently, death benefits are not distributed to clergy members or their families in the case of a spousal death.

The IRS previously issued a ruling on a similar issue for Taxpayer in Year 1, finding that expanding the base of those eligible for gratuities did not affect Taxpayer's status as a 501(c)(3) tax-exempt organization. Taxpayer represents that all benefits administered by Taxpayer continue to operate as a plan described in section 501(m)(3)(D).

Taxpayer seeks to revise its Charter with two proposed changes to the benefits provided. The first proposed change would allow for periodic increases to the amount of annuity payments. The annuity amounts would be tied to annual inflation and raised to account for the rising costs of goods and services as measured by the Consumer Price Index. The second proposed change would expand the eligibility base for the fixed-sum death benefit to permit distribution to a clergy member whose spouse has died. This would enable clergy members to be eligible to receive the death benefit even when the clergy member's deceased spouse was not a member of Taxpayer.

Taxpayer states that Church is experiencing a shortage of full-time priests and an aging population of clergy. Taxpayer's benefits offer a safety net for clergy and their families, encouraging clergy to fill vacancies and continue their roles serving the mission of Church. The proposed changes to Taxpayer's benefits further incentivize clergy to join and remain working for Church. The expanded eligibility for death benefits and periodically increased annuities that reflect inflation would provide an additional layer of financial security for young clergy members, particularly those with spouses who earn the majority of the family's income. The proposed expansion to distribute death benefits

upon the death of a clergy member's spouse would particularly help clergy members who had relied on the primary income of a spouse.

RULING REQUEST

Taxpayer requests a ruling that adopting an increase in annuity payments and entitling a clergy member to death benefits payable upon the death of the clergy member's spouse will continue to further an exempt purpose as described in section 501(c)(3).

LAW

Section 501(c)(3) provides that entities "organized and operated exclusively" for enumerated purposes, including charitable purposes, qualify for tax exempt status.

Treasury Regulation 1.501(c)(3)-1(c)(1) interprets "organized and operated exclusively for exempt purposes" to mean "engaged primarily in activities" that further one or more exempt purposes.

Treasury Regulation 1.501(c)(3)-1(d)(2) provides that "charitable" includes: (1) relief of the poor and distressed or of the underprivileged; (2) advancement of religion; (3) advancement of education or science.

Rev. Rul. 75-282, 1975-2 C.B. 201, held that an organization formed and controlled by a conference of churches making below-market mortgage loans to affiliated churches advanced the conference's religious purpose because the loans "carr[ie]d out an integral part of the activities of the parent [by] aiding member churches in obtaining facilities for their religious purposes."

Rev. Rul. 74-575, 1974-2 C.B. 161, held that "[t]he organization further[ed] religious purposes by assisting the individual members of the particular religion to observe faithfully the tenets (which include the dietary rules) of that religion." The organization supervised the commercial preparation and inspection of food products in a certain area to confirm compatibility with specific religious dietary requirements, "thereby assisting the individual members of the religion to comply with its tenets and dictates."

ANALYSIS

Taxpayer is a tax-exempt organization under section 501(c)(3) and represents that it operates as a plan described in section 501(m)(3)(D). Taxpayer is seeking a ruling to confirm that proposed changes to its operations will not affect its ability to continue furthering an exempt purpose. Taxpayer's Charter states its aim to "promote every pious and charitable design for the relief and assistance of" deceased clergy members' beneficiaries and dependents, noting that clergy and their families are often left in "very necessitous circumstance[s.]" The plan advances religion by supporting clergy who are necessary to the realization of Church's central purpose.

Taxpayer's largest expenditures are need-based gratuities. In 2022, Taxpayer distributed three times more need-based gratuities than fixed-sum death benefits and nearly twice as many need-based grants than annuities. Taxpayer represents that the two proposed changes to its benefits—expanded eligibility for death benefits and increased annuity payments—would provide additional support for Church's clergy, a group with historically very low compensation. Taxpayer suggests that these changes would further the exempt purpose of advancing religion by providing stronger incentives for new clergy to join Church and by aiding clergy retention, particularly upon the death of a clergy member's spouse.

The definition of "charitable" as used in section 501(c)(3) and described in Treas. Reg. 1.501(c)(3)-1(d)(2) includes the "advancement of religion" as an exempt purpose. Churches or affiliated organizations may further the advancement of religion through a variety of activities.

The advancement of religion may be found when activities are connected to the provision of necessary resources for religious worship. An organization making below-market mortgage loans to affiliated churches advances religion by "aiding member churches in obtaining facilities for their religious purposes." Rev. Rul. 75-282, 1975-2 C.B. 201. Similarly, Taxpayer advances religion because clergy are an "integral part" of Church's activities and are essential to the operation of Church. See *id.* Taxpayer's assistance to clergy members advances religion by supporting a necessary component of Church.

A charitable purpose to advance religion may also be found when undertaking an activity necessary to satisfy ritual or doctrinal requirements. For example, an organization that inspected commercial food products and distributed a periodic bulletin in order to inform the local religious community of which producers met specific food requirements qualified for exemption under section 501(c)(3). Rev. Rul. 74-575, 1974-2 C.B. 161. Taxpayer's program, which incentivizes clergy to join and remain working for Church, similarly "furthers religious purposes by assisting the individual members of the particular religion to observe faithfully the tenets" of Church. *Id.*

Expanded death benefit eligibility and periodically increased annuities that reflect changing economic conditions would provide meaningful financial relief, encouraging more clergy to join Church and providing an additional incentive for established clergy to remain in pastoral positions. These changes will continue to advance religion by supporting the critical role of Church's clergy and by increasing clergy recruitment and retention.

As described in Taxpayer's private letter ruling request, the changes contemplated by Taxpayer—increasing the amount of annuity payments and expanding the death benefit eligibility base to include clergy members upon the death of a clergy member's spouse—do not fundamentally alter Taxpayer's exempt purpose but, rather, serve to

further such purpose. Taxpayer's proposed changes will support clergy and increase the recruitment and retention of Church's clergy. These changes will not alter Taxpayer's ability to advance religion.

RULING

Adopting an increase in annuity payments and entitling a clergy member to death benefits payable upon the death of the clergy member's spouse as described above will continue to further an exempt purpose as described in section 501(c)(3).

The ruling contained in this letter is based upon information and representations submitted by or on behalf of Taxpayer and accompanied by penalty of perjury statements executed by an individual with authority to bind Taxpayer and upon the understanding that there will be no material changes in the facts. While this office has not verified any of the material submitted in support of the request for this ruling, it is subject to verification on examination. The Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes) will revoke or modify a letter ruling and apply the revocation retroactively if there has been a misstatement or omission of controlling facts; the facts at the time of the transaction are materially different from the controlling facts on which the ruling was based; or, in the case of a transaction involving a continuing action or series of actions, the controlling facts change during the course of the transaction. See Rev. Proc. 2023-1, 2023-1 I.R.B. 1, section 11.05.

This letter does not address the applicability of any section of the Code or Regulations to the facts submitted, other than those sections specifically described. 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. Specifically, no opinion is expressed as to whether or not the benefits plan constitutes a church plan under section 501(m)(3)(d).

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to Taxpayer's authorized representative.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Andrew F. Megosh, Jr.
Senior Tax Law Specialist
Exempt Organizations Branch 2
Employee Benefits, Exempt Organizations, and
Employment Taxes

cc: