

Internal Revenue Service

Number: **202613003**

Release Date: 3/27/2026

Index Number: 115.00-00, 170.00-00

Department of the Treasury Washington,
DC 20224

[Third Party Communication: Date of
Communication: Month DD, YYYY]

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PLR-111952-25

Date:

December 18, 2025

LEGEND

Taxpayer =

County =

State =

Dear _____ :

This letter is in response to your authorized representative's request for rulings that Taxpayer's income is excludable from gross income under section 115(1) of the Internal Revenue Code,¹ and that contributions to Taxpayer are deductible under section 170(c)(1) of the Code.

FACTS

State law authorizes certain counties to create nonprofit corporations for the reclamation and reuse of vacant, abandoned, foreclosed, or nonproductive property. Pursuant to this authority, County passed a resolution authorizing County's treasurer to incorporate Taxpayer. Shortly thereafter, Taxpayer was incorporated as a nonprofit, nonstock corporation under State law.

County designated Taxpayer as its agent for carrying out the reclamation, rehabilitation, and reutilization of vacant, abandoned, tax-foreclosed, and other real property within County. Taxpayer's purposes are to reclaim, hold, manage, and repurpose such property; to assist governmental and other entities in assembling and clearing title to property for productive use; and to encourage housing and economic development within County.

¹ Unless otherwise noted, all section references are to the Internal Revenue Code of 1986, as amended (the "Code").

Taxpayer's organizational documents provide that Taxpayer is intended to have the status of an organization whose income is excludable from gross income pursuant to section 115(1), and that its authority and activities are limited accordingly. Taxpayer's organizational documents forbid Taxpayer from taking any action that would cause its income to be includable in gross income. Similarly, Taxpayer cannot amend its organizational documents if the amendment would be inconsistent with section 115(1).

In accordance with State law, Taxpayer's board of directors is composed of the following members: County's treasurer, County's chief executive officer, the president of County's legislative body, two members appointed by the largest municipality in County, and up to four additional directors selected unanimously by the aforementioned statutory members. All directors serve without compensation and are subject to Taxpayer's conflicts of interest policy. Taxpayer's conflicts of interest policy supplements State's ethics rules, which operate to protect Taxpayer's interests when it contemplates entering a transaction or arrangement that might benefit the private interest of a director, officer, or employee of County. The conflicts of interest policy requires the members of Taxpayer's board of directors to acknowledge annually that they understand and agree to comply with the conflicts of interest policy. Furthermore, the conflicts of interest policy includes a requirement that bids to supply goods or services to Taxpayer must include a disclosure form detailing any political contributions made to any member of the board of directors who is also an elected official. Taxpayer's organizational documents contain no provisions for the removal of the treasurer, chief executive officer, or the president of County's legislative body from the board. A majority of the board constitutes a quorum. A majority of the quorum must approve all actions.

Taxpayer is subject to State's open meetings and public records requirements. Taxpayer must file annual financial reports with State's official auditor and is subject to audit by State's auditor. State law requires Taxpayer to post the financial reports on its website.

Taxpayer's funding is derived primarily from County appropriations, including up to a fixed percentage of delinquent real property tax collections, as well as appropriations from County's general fund, fees, and proceeds from the disposition of property.

Taxpayer's organizational documents provide for the board of directors to periodically review Taxpayer's operations to ensure Taxpayer is performing essential governmental functions, its compensation arrangements are reasonable and the result of arm's length bargaining, and that its arrangements do not result in personal inurement or impermissible private benefit to any director, trustee, or officer of Taxpayer or to any private individual or entity, except that reasonable compensation for services and payments and distributions in furtherance of Taxpayer's purpose may be made.

County may dissolve Taxpayer at any time under the provisions of State law. Upon dissolution, in accordance with State law, any remaining assets of Taxpayer, after payment of, or provision for, all debts and liabilities of Taxpayer, shall be paid into

County's general fund or otherwise distributed as Taxpayer's board of directors may direct.

LAW

Section 115(1) states that gross income does not include income derived from the exercise of any essential governmental function and accruing to a state or any political subdivision thereof.

Section 170(a)(1) provides that there shall be allowed as a deduction any charitable contribution (as defined in section 170(c)) payment of which is made within the taxable year.

Section 170(c)(1) states that, for purposes of section 170, the term charitable contribution means a contribution or gift to or for the use of a state, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia, but only if the contribution or gift is made for exclusively public purposes.

In Revenue Ruling 77-261, 1977-2 C.B. 45, the Internal Revenue Service ruled that income generated by an investment fund established by a state for the temporary investment of cash balances of the state and its political subdivisions is excludable from gross income under section 115(1), because such investment constitutes an essential governmental function and the fund's income accrues to the state and political subdivisions thereof. The ruling explains that section 115(1) is intended to apply not to the income of a state or municipality resulting from its own participation in activities, but rather to the income of an entity engaged in the operation of a public utility or the performance of some governmental function that accrues to a state or political subdivision thereof.

In Revenue Ruling 90-74, 1990-2 C.B. 34, the Internal Revenue Service ruled that the income of an organization formed, funded, and operated by political subdivisions to pool their casualty risks or other risks arising from obligations concerning public liability, workers' compensation, and employees' health is excludable from gross income under section 115(1), because: 1) pooling risks of political subdivisions constitutes an essential governmental function; 2) except for certain incidental benefits, private interests do not participate in or benefit from the organization; and 3) the organization's income accrues to political subdivisions.

Revenue Ruling 57-128, 1957-1 C.B. 311, provides that, in cases involving the status of an organization as a wholly owned instrumentality of one or more states or political subdivisions, the following factors are taken into consideration.

(1) whether it is used for a governmental purpose and performs a governmental function; (2) whether performance of its function is on behalf of one or more states or political subdivisions; (3) whether there are any private interests involved, or whether

the states or political subdivisions involved have the powers and interests of an owner; (4) whether control and supervision of the organization is vested in public authority or authorities; (5) if express or implied statutory or other authority is necessary for the creation and/or use of such an instrumentality and whether such authority exists; and (6) the degree of financial autonomy and the source of its operating expenses.

Revenue Ruling 75-359, 1975-2 C.B. 79, provides that a voluntary association of counties is separate from its member counties and qualifies as a wholly-owned instrumentality of those counties, which are political subdivisions, and is formed and operated exclusively for the public purposes of the member counties. Therefore, the revenue ruling holds that contributions to the association are deductible as contributions “for the use of” political subdivisions, subject to the limitation of section 170(b)(1)(B).

Revenue Ruling 69-453, 1969-2 C.B. 182, applies the six factors of Revenue Ruling 57-128 to rule that a soil and water conservation district formed as a private non-stock corporation by private individuals is not an instrumentality of the state. The revenue ruling finds the state has no authority or control over the district’s expenditures, has no authority to remove any member of the district’s board, and the district funds its operations through fees that it charges landowners for work done for the purpose of soil conservation. Moreover, the revenue ruling notes the state has no claim to the district’s assets after the district’s dissolution.

Revenue Ruling 65-196, 1965-2 C.B. 388, holds that a sports area commission formed pursuant to an agreement (which was authorized by the enactment of a state law legalizing such agreements) between a city and two villages to erect and operate an athletic stadium is an instrumentality of political subdivisions of the state. The commission is comprised of members appointed by councils of the city and villages as their representatives. Each member is required to be a citizen and resident of the state and may not be a member of the governing body of the city or the villages. The sole source of financing for the commission comes from bonds issued by the city. The revenue ruling concludes the commission is an instrumentality of the city and two villages by whose agreement it was formed because it meets substantially all of the Revenue Ruling 57-128 factors: the commission was created by the city and villages as their instrumentality, and validated by state law; the commission members are delegated certain authority under the terms of the agreement between the city and villages; control and supervision of the assets of the commission are in the hands of the city and villages; there are no private interests involved; and the city, upon the commission’s direction, is responsible for the project’s finances.

RULINGS REQUESTED

1. Because Taxpayer’s income is derived from its performance of an essential governmental function and accrues to County and other political subdivisions, Taxpayer’s income is excludable from gross income pursuant to section 115(1).
2. Because Taxpayer is an instrumentality for purposes of section 170(c)(1), contributions to it are deductible to the extent otherwise allowed by section 170.

ANALYSIS

Issue 1.

County created Taxpayer in accordance with State law, and it designated Taxpayer to be its agent to carry out the statutory purposes of combating community deterioration by restoring abandoned and blighted property and promoting economic and housing development in County. Transforming blighted, abandoned, or foreclosed property into safe and economically productive property is an essential governmental function.

County can dissolve Taxpayer at any time, and it controls Taxpayer's board of directors. Taxpayer is funded by County and State, as well by proceeds from the sale of property acquired in furtherance of its purposes. Taxpayer operates according to State's open meetings and public records rules, is required to submit an annual financial report to State's official auditor, and it must display the report on its website. Taxpayer has taken many additional steps to ensure that private interests do not benefit from Taxpayer's activities more than incidentally. Taxpayer's articles ensure that upon dissolution its assets will be controlled by County. Therefore, Taxpayer's income accrues to a state or political subdivision of a state.

Issue 2.

The second ruling requested raises the issue of whether Taxpayer is a separate, wholly-owned instrumentality of one or more political subdivisions of State, such that it is eligible to receive charitable contributions within the meaning of section 170(c)(1). Section 170(c)(1) generally defines the term "charitable contribution," for purposes of section 170(a)(1), to include a contribution or gift to or for the use of a state or any political subdivision of a state, provided the contribution or gift is made for exclusively public purposes.

Taxpayer is not a political subdivision of State. Therefore, contributions to Taxpayer cannot constitute charitable contributions to a political subdivision of State for purposes of section 170(c)(1). However, pursuant to Revenue Ruling 75-359, contributions to Taxpayer may constitute charitable contributions (within the meaning of section 170(c)(1)) for the use of political subdivisions of State, which are deductible under section 170(a), subject to the limitation of section 170(b)(1)(B), if Taxpayer qualifies as a separate, wholly-owned instrumentality of one or more political subdivisions of State. A determination of whether Taxpayer is a wholly-owned instrumentality of one or more political subdivisions of State is made by applying the factors set forth in Revenue Ruling 57-128.

Governmental Purpose and Function

The first factor under Revenue Ruling 57-128 is whether Taxpayer is used for a governmental purpose and performs a governmental function. County established Taxpayer as its agent to facilitate the governmental purposes of reclamation,

revitalization, and return to economic productivity of abandoned or foreclosed real estate located in County. Accordingly, we conclude Taxpayer is used for a governmental purpose and performs a governmental function.

Performance on Behalf of Political Subdivisions

The second factor under Revenue Ruling 57-128 is whether performance of Taxpayer's function is on behalf of one or more states or political subdivisions. County established Taxpayer as its agent to exercise the governmental purposes referenced above. Most of Taxpayer's board of directors represent County and some of its political subdivisions. Taxpayer's organizational documents require it to carry out the purposes of the State statute that authorizes the creation of entities like Taxpayer. Additionally, State law requires periodic reporting and audits to ensure, among other things, that Taxpayer represents County's interests, and Taxpayer's income accrues to County. Accordingly, Taxpayer performs its functions on behalf of County, which is a political subdivision of State.

Private Interests Involved

The third factor under Revenue Ruling 57-128 is whether there are any private interests involved, or whether State or its political subdivisions have the powers and interests of an owner. According to the facts, Taxpayer's revenue accrues to County. State law requires Taxpayer to adhere to State's open meetings and public records requirements. Taxpayer must also, pursuant to State law, provide an annual financial report to State and post the report on its website. Bids to provide goods or services to Taxpayer must be accompanied by disclosures of campaign contributions to elected officials serving as Taxpayer's directors. Furthermore, Taxpayer adopted a conflicts of interest policy that supplements State's conflict of interest policy for public officials and employees. This policy requires Taxpayer's directors to annually acknowledge that they understand and agree to comply with Taxpayer's conflicts of interest policy. Taxpayer's organizational documents require it to periodically review its activities to ensure Taxpayer is performing essential governmental functions and its compensation arrangements are reasonable and the result of arm's length bargaining. State law requires Taxpayer to use the proceeds from its sale of property for the purposes for which Taxpayer was organized. State law further authorizes County's governing body, to determine the disposition of any remaining assets upon Taxpayer's dissolution. Moreover, the organizational documents provide that no part of Taxpayer's net earnings can inure to the benefit of, or be distributable to, any director, trustee, or officer of Taxpayer, or any private individual or entity. Accordingly, only incidental private interests are involved, and political subdivisions of State have the powers and interests of an owner with respect to Taxpayer.

Control and Supervision

The fourth factor under Revenue Ruling 57-128 is whether control and supervision of Taxpayer is vested in public authority. Under the facts, State law allows Taxpayer to

have a board of at least five, but not more than nine uncompensated directors. Three of the directors are designated by statute: County's treasurer, County's chief executive officer, and the president of County's legislative body. Two directors are appointed by the largest municipality in County. State law provides that County's directors may appoint up to four additional directors. Accordingly, directors who represent County and political subdivisions within County must always be a majority of Taxpayer's board of directors. County can dissolve Taxpayer at any time, in accordance with State law. Therefore, based on the facts provided, we conclude the control and supervision of Taxpayer is vested in public authority.

Statutory Authority

The fifth factor under Revenue Ruling 57-128 is whether express or implied statutory or other authority is necessary for the creation and use of Taxpayer and whether such authority exists. Pursuant to State law, County enacted a resolution to establish Taxpayer to operate on County's behalf to facilitate the effective reclamation, revitalization, and return to economic productivity of abandoned or foreclosed real estate located in County. Taxpayer continues to function pursuant to specific State statutory and other authority. Consequently, we conclude that express statutory authority is necessary for the creation and use of Taxpayer and that such authority exists.

Financial Autonomy and Source of Operating Expenses

The sixth factor under Revenue Ruling 57-128 is the degree of Taxpayer's financial autonomy and the source of its operating expenses. Taxpayer is financially dependent on County for funding. Taxpayer's funding includes a percentage of County's delinquent tax and assessment collection fund and proceeds from the sale of property acquired in furtherance of its statutory purposes. State law contemplates that Taxpayer will use revenue from its activities solely in furtherance of those statutory purposes. Based on these facts, we find that Taxpayer is not financially autonomous and relies on County funding for its operating expenses.

For the reasons stated above, we conclude that Taxpayer is a wholly owned instrumentality of a political subdivision of State. Similar to Revenue Ruling 65-196, and unlike Revenue Ruling 69-453, Taxpayer is used for a governmental purpose and performs a governmental function; Taxpayer's function is on behalf of County, which is the political subdivision of State that established Taxpayer; there are not more than incidental private interests involved, and political subdivisions of State have the powers and interests of an owner, with respect to Taxpayer; control and supervision of Taxpayer is vested in public authorities; express statutory authority is necessary for the creation and use of Taxpayer and such authority exists; and Taxpayer is not financially autonomous and relies on County funding for its operations. Accordingly, in accordance with Revenue Ruling 75-359, we conclude that contributions to Taxpayer constitute charitable contributions (within the meaning of section 170(c)(1)) for the use of a

political subdivision of State, that are deductible under section 170(a), subject to the limitation of section 170(b)(1)(B).

CONCLUSION

We rule that:

1. Because Taxpayer's income is derived from its performance of an essential governmental function and accrues to County, Taxpayer's income is excludable from gross income pursuant to section 115(1).
2. Because Taxpayer is an instrumentality for purposes of section 170(c)(1), contributions to it are deductible to the extent otherwise allowed by section 170.

These rulings are based on the facts as they were presented in the ruling request and on the understanding that there will be no material changes to those facts. 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 expressly described herein.

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, or of any activity or transaction not expressly addressed in this letter.

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 individual with authority to bind Taxpayer, as specified in Revenue Procedure 2025-1, 2025-1 I.R.B. 1, §7.01(15)(b), or its successors. This office has not verified any of the material submitted in support of the request for rulings, but such material is subject to verification on examination. The Associate Office 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 rulings were 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 Revenue Procedure 2025-1, section 11.05, or its successors.

This ruling letter is directed only to Taxpayer. Section 6110(k)(3) provides that it may not be used or cited as precedent by any other taxpayer.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this letter ruling.

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

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

Sincerely,

Kenneth Griffin
Branch Chief, Exempt Organizations Branch 3
(Employee Benefits, Exempt Organizations,
and Employment Taxes)

cc: