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

Date: OCT 24 2000

Employer Identification Number:

Contact Person:

Contact Number:

T:EO:B2

UNIFORM ISSUE NUMBERS:
501.03-00
501.06-00
527.00-00

Legend:

M =
N =
O =

Dear Applicant:

This letter is in reply to the letter from your authorized representative dated December 3, 1999, as amended September 1, 2000, and October 17, 2000, in which M and N requested rulings with respect to the tax consequences of the proposed formation of O.

M is an organization recognized by the Internal Revenue Service as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, and is a publicly supported organization described in section 509(a)(2) of the Code. M is also the parent organization of a group ruling with subordinates exempt under section 501(c)(3). M, as an organization, is the result of a recent merger with another organization which had a similar membership and which was recognized as exempt under section 501(c)(6). Those programs of the section 501(c)(6) organization that in the judgment of M's board of directors were charitable and educational were transferred to and became programs of M.

N is an organization recognized as a business league exempt from federal income tax under section 501(c)(6) of the Code. N's activities include those programs of the organization that merged with M that were in the nature of trade association activities within the meaning of section 501(c)(6). M has control over N through the existence of an identical board of directors with respect to the two entities. A committee of the board members is granted responsibility for the control of N's management team. Such control is exercised periodically and from time to time as the board of directors deems reasonable. There are no common officers of the two organizations and the responsibilities for the day-to-day operation of N are vested in individuals who do not share such responsibilities with M. However, to the extent that there are individuals employed by M with specific technical expertise or relevant office management skills which may be needed by N, M contracts out such services at a fair and equitable allocation of the appropriate cost to N. These contracted individuals have no day-to-day operational authority over N. M and N maintain separate mailing lists.

In order to further its exempt purposes, which generally include the furtherance of the interests of the profession of its members, N proposes to organize O, a political action committee. You state that O will disburse contributions and donations to candidates for political office whose views are favorable to the profession represented by N. You also state that the decision to fund candidates will be made solely by the O board of directors in accordance with established candidate criteria. O's board of directors will report to N's board of directors regarding candidate funding, but such reports will be for informational purposes only.

You state that O will be controlled by N through its power to appoint O's board of directors, a power that will be stated in O's Articles of Incorporation. You plan that O's board of directors will be elected by N's board of directors from N's membership and that the chairman of N's board of directors will be the chairman of O's board of directors. You state that the majority of O's board of directors will be contributors to O who are not members of N's board of directors.

You state that contributions for O from N members, who are also members of M, will be solicited by O periodically throughout each fiscal year from such members in a mailing separate and apart from the M and N annual dues solicitation. You state that N proposes to contribute the use of its mailing list to O. You also state that the mailings will be funded solely with O money; none of the cost of the mailings will be borne by M or N, and that N members who make contributions to O will receive O membership in return. You state that O will maintain separate books and records from M and N, that O will engage an unrelated party as financial manager, and that this party will principally attend to the necessary collection and disbursement activities of O.

You also state that none of the services or benefits received by O from N will include any direct or indirect services or benefits from M, and that O will not receive any indirect or direct services or benefits from M.

In light of the representations you have made, as summarized above, you have requested the following rulings:

(1) There will be no adverse effect upon the exempt status of M, which is related to N, under section 501(c)(3) of the Code upon the formation of O.

(2) N, related to M, will remain tax exempt under section 501(c)(6) upon its formation of O.

(3) The activities of O will not give rise to federal income tax liability under section 527(f) to either M or N.

(4) The political activities of O will be sufficiently segregated and insulated by safeguards implemented by M and N, such that the political activities of O will not be attributable to either M or N in a manner that jeopardizes the tax-exempt status under section 501(a) of M or N.

Section 501(c)(3) of the Code provides for exemption from federal income tax of organizations organized and operated exclusively for charitable, scientific, or educational purposes provided no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense. In the law of charity, the promotion of health is considered to be a charitable purpose.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Section 509(a)(2) of the Code provides, in part, that the term "private foundation" does not include an organization which (A) normally receives more than one-third of its support in each taxable year from any combination of (i) gifts, grants, contributions, or membership fees, and (ii) gross receipts from admissions, sales of merchandise, performance of services, or furnishing of facilities, in an activity that is not an unrelated trade or business (within the meaning of section 513), and (B) normally receives not more than one-third of its support in each taxable year from the sum of gross investment income and the excess (if any) of the amount of the unrelated business taxable income (as defined in section 512) over the amounts of the tax imposed by section 511.

Section 527(f) of the Code imposes a tax on any direct political expenditures (or expenditures through another organization) of an organization exempt under section 501(c).

Section 527(f)(3) of the Code provides that a separate segregated fund (within the meaning of section 610 of title 18 or of any similar State statute) which is maintained by an organization exempt under section 501(c) shall be treated as a separate organization.

Subsequent to the proposed formation of O, M will continue to operate exclusively for charitable purposes within the meaning of section 501(c)(3) of the Code. Subsequent to the proposed formation of O, N will continue to operate as a business league within the meaning of section 501(c)(6). The transfer of activities and actions described above will have no adverse effect on a determination of exempt status under section 501(c)(6).

Although section 527(f) of the Code imposes a tax on any direct political expenditures of any organization exempt under section 501(c)(6), section 527(f)(3) permits an exempt section 501(c)(6) organization to separate its political activities into a separate segregated fund which would then be subject to section 527.

Accordingly, based on the facts and circumstances concerning the reorganization and related transactions as stated above, we rule as follows:

(1) The creation of O by N will not jeopardize the tax exempt status of M under section 501(c)(3) of the Code.

(2) The creation of O by N will not jeopardize the tax exempt status of N under section 501(c)(6).

(3) The proposed activities of O will not give rise to tax liability under section 527(f) to either M or N.

(4) The political activities of O as described will not be attributable to either M or N in a manner that jeopardizes the tax exempt status under section 501(a) of M or N.

These rulings are based on the understanding that there will be no material changes in the facts upon which they are based. Any such change should be reported to the Tax Exempt and Government Entities (TE/GE) Customer Service office. Because it could help resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records. A copy of this ruling is being forwarded to the TE/GE Customer Service office.

Except as we have specifically ruled herein, we express no opinion as to the consequences of these transactions under the cited provisions or under any other provisions of the Code.

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

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

Sincerely yours,

Joseph Chasin

Joseph Chasin
Acting Manager
Exempt Organizations
Technical Group 2