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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

200150026

Date: AUG 6 2001

Contact Person:

Identification Number:

Telephone Number:

T:EO:B2

Uniform Issue Numbers:
501.06-00
512.00-00
513.00-00

Employer Identification Number:

Legend:

M =
N =
m =
n =
x =

Dear Applicant:

This letter is in reply to the letter from your authorized representative dated August 1, 2000, in which M requested rulings with respect to the tax consequences of a proposed merger.

M is a trade association recognized by the Internal Revenue Service as exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code. M states that its mission is to foster alliances and advocate standards that promote straight through processing of m. M's membership includes n industry professionals representing over x organizations worldwide.

N is a trade association recognized by the Service as exempt from federal income tax under section 501(c)(6) of the Code. N's membership includes individual members representing the n industry. N provides programs and events to educate and inform its membership on n industry related matters.

With a common membership base, M and N propose to merge N into M. This merger will alleviate duplication of programs, alleviate duplication of membership dues costs to members, and enhance the overall delivery of information and education regarding the n industry. M will be the surviving entity, changing its name to M - N and amending its Articles of Incorporation and bylaws accordingly. N will cease to exist. After the merger, M - N will operate for the combined purposes of the former constituent entities. M states that M - N will not be adding any new activities to the regular activities as a result of the merger. The regular activities will consist of providing educational seminars for the combined membership as well as member services

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such as membership data base management, dues billing, and collection. Additionally, the website will be updated to reflect the combined services to members. As a result of the merger, N will transfer to M all of its assets and liabilities, which are limited to cash only, representing the net assets or fund balance of N. M states that there are no physical assets, such as desks, chairs, etc., nor are there any outstanding liabilities.

You have requested rulings that (1) the merger activities will not adversely affect the tax exempt status under section 501(c)(6) of the Code of M as the surviving organization, and (2) any transfers and distributions of property from N to M or M - N will not result in unrelated business taxable income to M or M - N within the meaning of sections 511 through 514.

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

Section 512(a)(1) of the Code defines the term "unrelated business taxable income" as the gross income derived by any organization from any unrelated trade or business regularly carried on by it, less certain allowable deductions and modifications.

Section 513(a) of the Code defines the term "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of the function constituting the basis of its exemption.

Section 1.513-1(d)(2) of the regulations provides that trade or business is "related" to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes; and it is "substantially related" only if the causal relationship is a substantial one. The regulation continues that for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

Section 514(a)(1) of the Code provides that a portion of the income derived from, or on account of, each debt-financed property shall be included as an item of gross income derived from unrelated trade or business.

Section 514(b)(1)of the Code defines "debt-financed property" to mean, with certain exceptions, any property which is held to produce income and with respect to which there is an "acquisition indebtedness" at any time during the taxable year.

Section 514(c) of the Code defines "acquisition indebtedness" as the unpaid amount of indebtedness incurred in acquiring or improving the property.

Subsequent to the proposed merger, M - N will operate as a trade association within the meaning of section 501(c)(6) of the Code. The transfer of activities and actions described above will have no adverse effect on a determination of exempt status under section 501(c)(6). Further, the creation of M - N and the proposed transfers of activities and actions as described above do not involve the regular carrying on of unrelated trade or business within the meaning of section 513. Nor does the transfer of cash from N, in this case, represent "acquisition indebtedness" incurred by M or M - N.

Accordingly, based on the facts and circumstances concerning your proposed merger, as stated above, we rule that:

(1) the merger activities will not adversely affect the tax exempt status under section 501(c)(6) of the Code of M as the surviving organization, and

(2) any transfers and distributions of property from N to M or M - N will not result in unrelated business taxable income to M or M - N within the meaning of sections 511 through 514.

This ruling is based on the understanding that there will be no material changes in the facts upon which it is based. Any such change should be reported to the Ohio 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 Ohio 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 about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Manager, Exempt Organizations
Technical Group

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