



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

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Date: January 24, 2007

Contact Person:

Identification Number:

U.I.L. 501.03-08

Telephone Number:

Employer Identification Number:

Legend:

M =

N =

O =

m =

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Dear :

This letter is in reference to the letter from the authorized representative of M, in which M requested rulings that neither its formation of N, nor M's restructuring, will adversely affect M's tax exempt status under section 501(c)(3) of the Internal Revenue Code.

M is an organization recognized by the Internal Revenue Service as exempt from federal income tax as a charitable organization under section 501(c)(3) of the Code. M is a nonprofit membership corporation under State law, with members world-wide, engaged in charitable and educational activities regarding m and the treatment of n conditions.

M currently conducts activities such as continuing medical education programs and products focusing on the latest scientific and professional information as well as reports on m diagnoses, treatment, and research, and hosts the largest annual international gathering of physicians, researchers, and academics in the fields of m. M also publishes two journals, as well as several smaller periodicals.

Over the past several years, M's members have expressed an interest in forming a trade association/business league organization to which M could transfer certain of its activities that are similar to business league activities. Because of the various limitations imposed on organizations exempt under section 501(c)(3) of the Code, M's membership determined that the formation of a new organization under section 501(c)(6) would allow M to pursue its charitable activities, while allowing the new organization to expand the services provided to the

membership. M states that a new organization could also provide new activities designed to improve the common business interest of its members.

Accordingly, a new non-stock, nonprofit corporation was formed. This organization was named N. N has been recognized by the Service as an exempt organization described in section 501(c)(6) of the Code. Subsequent to the receipt of this ruling, M will amend its Articles of Incorporation to change its name to O to better reflect and symbolize the charitable purposes that it serves. In addition, N will amend its Articles of Incorporation to change its name to M, so that each of the organizations' names best reflects their purposes and activities.

The reorganized system will be established as follows: N (the new M) will serve as the sole corporate member of O, and will have the right to appoint and remove the Board of Trustees of O. The former members of M will become members of the new M. The Board of Directors of each organization will not be identical, but there will be substantial overlap on the Boards.

O will transfer certain activities it has been performing to the new M that are traditionally carried on by trade associations, such as member advocacy through lobbying at both the State and federal levels. Other activities that will be transferred include membership activities such as the collection and processing of dues, and the Public Affairs Committee. M anticipates that some employees will be provided by O to the new M pursuant to an administrative services agreement on a cost basis. The new M will lease space from an independent party. M has stated that the organization exempt under section 501(c)(3) of the Code will appoint a committee to review all proposed transactions between the section 501(c)(3) organization and the section 501(c)(6) organization from the standpoint of fairness to the section 501(c)(3) organization and consistency with charitable purposes. The committee will be charged with protecting the charitable assets of the section 501(c)(3) organization.

M has requested a ruling that neither the formation of N nor the restructuring and transfers described above, will adversely affect the tax-exempt status of M as an organization described in section 501(c)(3) of the Code.

Section 501(c)(3) of the Code provides for the 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 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)(3)-1(c)(1) of the Income Tax Regulations provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(2) of the regulations provides that the term “charitable” is used in section 501(c)(3) of the Code in its generally accepted legal sense and is, therefore, not to be construed as limited by the separate enumeration in section 501(c)(3) of other tax-exempt purposes which may fall within the broad outlines of “charity” as developed by judicial decisions.

Section 1.501(c)(3)-1(d)(3) of the regulations provides, in part, that the term “educational,” as used in section 501(c)(3) of the Code, relates to the instruction or training of the individual for the purpose of improving or developing his capabilities. One example is an organization whose activities consist of presenting public discussion groups, forums, panels, lectures, or other similar programs.

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.

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

An organization exempt under section 501(c)(3) of the Code may create an organization exempt under section 501(c)(6) to act as its parent without jeopardizing its exempt status. However, the section 501(c)(3) organization must not give up control of its charitable and educational purposes or activities to the section 501(c)(6) parent. The activities being transferred, membership services including collecting and processing of dues, member advocacy through lobbying, and a Public Affairs Committee do not constitute, in and of themselves, the charitable or educational purposes or activities of O.

Accordingly, based on the facts and circumstances concerning the proposed transaction, we rule that neither the formation of N nor the restructuring and transfers described above will adversely affect the tax-exempt status of M as an organization described in section 501(c)(3) of the Code.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

This ruling is based on the facts as they were presented and on the understanding that there will be no material changes in these facts. Because it could help resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records.

Except as we have specifically ruled herein, we express no opinion as to the consequences of this transaction under the cited provisions or under any other provision 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 there are any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

As provided by section 8.02 of Rev. Proc. 2007-4, 2007-1 I.R.B. 118, 130, comfort letter rulings will not be issued where a transaction is addressed by established precedent.

Sincerely yours,

Debra J. Kawecki
Manager, Exempt Organizations
Technical Group 2

Enclosure
Notice 437