Internal Revenue Service

Department of the Treasury
Washington, DC 20224

200051050

UIL: 501.00-00
401.00-00
414.00-00

Contact Person:
Employee
Telephone Number:

In Reference to:
T:EP:RA:T3

Date:
SEP 26 2000

Legend:

Entity A =
Subsidiary B =
Subsidiary C =
Subsidiary D =
Organization E =
Organization G =
Health System G =
Health System J =
Health System B =
Directory I =
Church F =
Committee H =
Plan X =

Board Y =
Medical Center M =
State M =

Dear

This is in response to correspondence dated August 21, 1998, May 27, 1999, June 23, 1999, and July 19, 2000, in which your authorized representative requested a ruling on your behalf under section 414(e) of the Internal Revenue Code.

The following facts and representations have been submitted on your behalf:

Entity A was incorporated as a State M nonprofit, membership corporation. Entity A is an organization described in section 501(c)(3) of the Code as an organization exempt from taxation under Code section 501(a). Entity A is sponsored by Organization G through its health-related arm, Organization E. Entity A provides hospital acute care and related services, as well as home health care and hospice care which it administers under the assumed names of Subsidiary B and Subsidiary C, respectively.

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Prior to July 1, 1997, Entity A had three subsidiary organizations: Subsidiary B, Subsidiary C, and Subsidiary D. Both Subsidiary B and C are organizations described in section 501(c)(3) of the Code as an organization exempt from taxation under Code section 501(a). As of July 1, 1997, all related organizations with the exception of Subsidiary D merged into Entity A.

In 1997, Entity A, in conjunction with Medical Center M, constructed an outpatient diagnostic and primary care facility in State M. Entity A invested in capital equipment to support the services operated exclusively by Entity A including family practice care, orthopedic care, after-hours care, laboratory, radiology (including x-ray, bone density and mammography), physical therapy, speech and occupational therapy, and specialty care (cardiology and hearing health care).

In January 1998, Entity A opened a health center in State M. This facility was constructed jointly with Medical Center M. Services are owned and operated by Entity A and include family practice and specialty care, as well as physical therapy and laboratory services, home health and hospice care and home medical equipment and supplies.

Entity A owns and operates 14 physician practices housed in seven health system-based clinics. The 14th practice was established in January 1998.

Organization G is a Church F religious order with approximately 30 independent mother houses in the United States. Entity A is sponsored by Organization G which has approximately 325 sisters whose mother house novitiate is located in State M. Organization G sponsors three other regional health systems, Health Systems G, J and B in State M. Members of Organization G also serve in two diocesan homes for dependent children, parochial, grade and high schools, three foreign missions and a variety of parish and church related ministries.

One-quarter of the members of Entity A's Board of Trustees, Board Y, are members of Church F. Entity A does not receive any financial support from Church F and is self-supporting in terms of its operating budget.

Church F's nondiscriminatory care of the sick and injured is a function of carrying out its mission. Entity A provides an active Pastoral Care Department. Church F religious services and nondenominational religious services are conducted in Entity A's chapel.

Entity A does not have a preferential Church F-member hiring policy. Hiring is based on skill, knowledge and ability.

Entity A has been listed in Directory I each year since Organization G began its sponsorship in 1955. Directory I lists Entity A as a religious institution operated by Church F.

Entity A (or Subsidiary B before its merger into Entity A) has maintained Plan X for employees of Entity A (and employees of Subsidiary B and Subsidiary C prior to their merger into Entity A) since January 1, 1963. Only Entity A employees and retirees are currently covered in Plan X. None of the participants in Plan X are employees or retirees of entities other than Entity A. At no time have any participants in Plan X been employed by for-profit organizations. Plan X has been amended and restated effective January 1, 1990,

and is qualified under section 401(a) of the Internal Revenue Code.

Since its adoption in 1963, Plan X has been administered as provided in the plan document. Section Q16 of Plan X provides:

> Plan X...is a trustee-administered defined benefit plan. The Plan Administrator is Entity A ... The general administration of the Plan is handled by Committee H which is appointed by Board Y and makes all the rules and regulations necessary for efficient Plan administration. Committee H cannot alter the terms, conditions or benefits of Plan X, but makes all decisions regarding any questions, interpretation or application of any Plan X provisions. Committee H also reviews all applications for benefits to ensure that all Plan X provisions are put into practice uniformly and without discrimination.

Committee H has as its sole purpose the administration of Plan X. Plan X has been administered by Committee H since its adoption in 1963.

Entity A is governed by 15-member Board Y. Trustees are appointed by Organization E for three, three-year terms, with a maximum of 15 years served. Board Y membership is limited to 17 members with no more than one quarter of the membership being representatives from Organization G. Membership must also include the chief of the medical staff and president (by virtue of position) of Entity A, both having voting privileges.

Board Y is responsible for overall governance and direction of Entity A. Board Y functions through a number of appointed committees, including, but not limited to, its Executive Committee, Finance Committee, Quality and Outcomes Committee, System Development Committee and the Board Development and Governance Committee.

The operational management of Entity A is the responsibility of the President, who is selected by Board Y and ratified by Organization G. There are 30 administrative departments organized under the Vice President of Corporate Services, Vice President of Sponsorship, Vice President of Community Health Services and Vice President of Acute-Home Care Services. The medical staff annually selects a Chief of Staff who serves as a voting member on Board Y.

Based on the aforementioned facts and representations, your authorized representative requests a ruling that:

1. Plan X is maintained by an organization described in Code section 414(e)(3)(A) and qualifies as a "church plan" within the meaning of Code section 414(e).

2. Plan X has qualified as a "church plan" within the meaning of Code section 414(e) since January 1, 1974.

Section 414(e)(1) of the Code defines a church plan as a plan established and maintained for its employees (or their beneficiaries) by a church or by a convention or association of churches which is exempt from taxation under section 501 of the Code.

Section 414(e) was added to the Code by section 1015 of the Employee

Retirement Income Security Act of 1974 (ERISA), Pub. L. 93-406, 1974-3 C.B. 1, enacted September 2, 1974. Section 1017(e) of ERISA provided that section 414(e) applied as of the date of ERISA's enactment. However, section 414(e) subsequently was amended by section 407(b) of the Multiemployer Pension Plan Amendments Act of 1980 (MPPAA), Pub. L. 96-364, to provide that section 414(e) was effective as of January 1, 1974.

Section 414(e)(3)(A) of the Code provides that a plan, otherwise qualified, will qualify as a church plan if it is maintained by an organization, whether a civil law corporation or otherwise, the principal purpose or function of which is the administration or funding of a plan or program for the provision of retirement benefits or welfare benefits, or both, for the employees of a church or a convention or association of churches, if such organization is controlled by or associated with a church or a convention or association of churches.

Section 414(e)(3)(B) of the Code defines "employee" to include a duly ordained, commissioned, or licensed minister of a church in the exercise of a ministry, regardless of the source of his or her compensation, and an employee of an organization, whether a civil law corporation or otherwise, which is exempt from tax under section 501, and which is controlled by or associated with a church or a convention or association of churches.

Section 414(e)(3)(C) of the Code provides that a church or a convention or association of churches which is exempt from tax under section 501 shall be deemed the employer of any individual included as an employee under subparagraph (B).

Section 414(e)(3)(D) of the Code provides that an organization, whether a civil law corporation or otherwise, is associated with a church or convention or association of churches if the organization shares common religious bonds and convictions with that church or convention or association of churches.

In order for an organization to have a qualified church plan it must establish that its employees are employees or deemed employees of the church or convention or association of churches under section 414(e)(3)(B) of the Code by virtue of the organization's affiliation with the church or convention or association of churches and that the plan will be administered by an organization of the type described in section 414(e)(3)(A).

You have represented that the employees of Entity A are employees of an organization which is tax-exempt under Code section 501. Entity A is listed in Directory I which is the official directory of Church F, and has been so listed since 1955. The Internal Revenue Service has previously recognized that any organization listed in Directory I shares common religious bonds and convictions with Church F and is considered associated with Church F within the meaning of section 414(e)(3)(D) of the Code.

Accordingly, Entity A is exempt from taxation under section 501(a) of the Code and is also associated with Church F. Therefore, under the provisions of Code section 414(e)(3)(B) and (C), employees of Entity A are considered to be employees of Church F and Church F is considered to be the employer of such employees for purposes of the church plan rules since January 1, 1974.

Further, concerning Subsidiaries B and C, you have represented that at all times since January 1, 1974, until their merger into Entity A on July 1,

1997, Plan X has also been established and maintained for the employees of Subsidiaries B and C. Since Entity A provided home health and hospice care through Subsidiaries B and C, Subsidiaries B and C are also considered to share common bonds and convictions with Church F through the services they provide and their relationship with Entity A.

In view of the stated purposes of Entity A, Subsidiary B and Subsidiary C, their organization and structure, their actual activities and Entity A's recognized status within Church F, employees of Entity A, Subsidiary B and Subsidiary C meet the definition of section 414(e)(3)(B) of the Code and are deemed to be employees of an organization, whether a civil law corporation or otherwise, which is exempt from tax under section 501 and which is controlled by or associated with a church or convention or association of churches.

However, an organization must also establish that its plan is established and maintained by a church or a convention or association of churches or by an organization described in section 414(e)(3)(A) of the Code. To be described in section 414(e)(3)(A) of the Code, an organization must have as its principal purpose the administration of the plan and must also be controlled by or associated with a church or convention or association of churches.

Plan X has been administered by Committee H since its adoption in 1963. Since Committee H has as its sole purpose the administration of Plan X and is controlled by Entity A's Board of Trustees, Board Y, which is controlled by Organization G and associated with Church F through Entity A, Plan X is a plan established and maintained for its employees (or their beneficiaries) by an organization of the type described in section 414(e)(3)(A) of the Code.

Therefore, we conclude that Plan X is maintained by an organization described in Code section 414(e)(3)(A) and qualifies as a "church plan" within the meaning of Code section 414(e), and that Plan X has qualified as a "church plan" within the meaning of Code section 414(e) since January 1, 1974.

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

This letter expresses no opinion as to whether Plan X satisfies the requirements for qualification under section 401(a) of the Code. The determination as to whether a plan is qualified under section 401(a) is within the jurisdiction of the appropriate Key District Director's Office of the Internal Revenue Service.

A copy of this letter has been sent to your authorized representative in accordance with a Power of Attorney on file in this office.

Sincerely yours,

/s/ Frances V. Sloan

Frances V. Sloan, Manager
Employee Plans Technical Group 3
Tax Exempt and Government
Entities Division

Enclosures:

Deleted Copy of this Letter
Notice of Intention to Disclose