200316043

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

Date: JAN 23 2003

Contact Person:

Identification Number:

Telephone Number:

No Third Party Contact:
SIN#:
501.03-11
509.02-00

T:EO:B1

Employer Identification Number:

Legend:

M:
N:
T:
V:

Dear Sir or Madam:

This is in response to your request as to whether your involvement in V will affect your exempt status under section 501(c)(3) of the Internal Revenue Code and foundation status under section 509(a)(3) of the Code.

Facts:

You are an organization described in section 501(c)(3) and classified as an organization described in section 509(a)(3). You are the parent of the M system, which previously owned M, a 365-bed general acute care hospital.

N was previously owned and operated by T, a non-profit corporation described in section 501(c)(3). N is a hospital that is operated in the same community as M.

In order to improve efficiency of hospital operations, you agreed with T to consolidate the operations of M and N into one organization, V. V is described in section 501(c)(3) and classified as an organization described in sections 509(a)(1) and 170(b)(1)(A)(iii). Operating M and N as one organization will create a hospital network that will better serve your community and realize substantial financial benefits from the resulting economies of scale and elimination of waste. M and N will maintain their own identities after the consolidation.

V is controlled by a 15 member board of directors. You designate seven members of V's Board and T designates seven members, and the fifteenth member is the President and Chief

Executive Officer of V, who serves as an ex-officio member. You have the right to appoint and remove any of the board members that you have appointed. V has the authority to manage, control, and operate the affairs of M and N subject to specific powers reserved to the members.

Law:

Section 501(c)(3) of the Code provides, in part, for the exemption from federal income tax of organizations that are organized and operated exclusively for religious, charitable, scientific, or educational purposes, provided no part of their net earnings 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 Code section 501(c)(3) in its generally accepted legal sense. The promotion of health has long been recognized as a charitable purpose. See Restatement (Second) of Trusts, sections 368, 372; IV Scott on Trusts, sections 368, 372 (3rd ed. 1967); and Revenue Ruling 69-545, 1969-2 C.B. 117.

Section 509(a) of the Code provides that all organizations described in section 501(c)(3) are private foundations except those described in paragraphs (1) through (4) of section 509(a).

Section 509(a)(3) of the Code excludes from the definition of a private foundation an organization which is operated, supervised, or controlled by or in connection with one or more organizations described in section 509(a)(1) or 509(a)(2).

Section 1.509(a)-4(d)(2)(iv) of the regulations provides that a supporting organization will satisfy the organizational test of section 509(a)(3)(A) even though its articles do not designate each of the specified organizations by name if there has been a historic and continuing relationship between the supporting organization and supported organizations and by reason of such relationship there has developed a substantial identity of interests between such organizations.

Section 1.509(a)- 4(i)(1) of the regulations provides that an organization will be operated in connection with one or more publicly supported organizations if it meets the responsiveness test and the integral part test.

Section 1.509(a)-4(i)(2) of the regulations describes the responsiveness test as being satisfied if, in part, if the officers, directors or trustees of the supported organization maintain a close working relationship with the officers, directors or trustees of the supporting organization. Furthermore, by being operated in connection with the publicly supported organization, the supported organization has a significant voice in the operations of the supporting organization.

Section 1.509(a)-4(i)(3) of the regulations provides that the integral part test will be satisfied if the supporting organization maintains a significant voice in the operations of one or more supported organizations. The activities of the supported organization are activities to perform the functions, or to carry out the purposes of such organization and, but for the involvement of the supporting organization, would normally be engaged in by the publicly

supported organizations themselves.

Rev. Rul. 69-545, 1969-2 C.B. 117, sets forth standards under which a nonprofit hospital may qualify for recognition of exemption under section 501(c)(3) of the Code. This revenue ruling gave consideration to two separate hospitals, only one of which was determined to qualify for exempt status under section 501(c)(3). By weighing all the relevant facts and circumstances, the revenue ruling analyzed whether both the control and use of the hospitals were for the benefit of the public or for the benefit of private interests. The hospital that qualified for exemption was found to be organized and operated to further the charitable purpose of promoting health by satisfying a community benefit standard that included, among other factors, a board of directors that broadly represented the interests of the community. The hospital that did not qualify for recognition of exemption was found to be operating for the private benefit of those who controlled it rather than for the benefit of the public.

Rationale:

Based on all of the facts and circumstances, you are operating to support the charitable purposes of V, which is consistent with your exempt purposes under section 501(c)(3) and retention of your status under section 509(a)(3).

Therefore, we rule that your involvement in V will not negatively impact your exempt status under section 501(c)(3) or foundation status under section 509(a)(3).

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,

(signed) Marvin Friedlander

Marvin Friedlander
Manager, EO Technical
Group 1