

## Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:CORP:1-PLR-116391-00

Date:

October 23, 2000

### LEGEND:

Taxpayer =

State X =

Parent =

Property =

City Y =

Charitable Service =

Date A =

Date B =

Date C =

Certificates =

We respond to a letter dated August 22, 2000 from your authorized representative requesting a ruling regarding the tax consequences of a proposed transaction under sections 336 and 337 of the Internal Revenue Code. The information submitted for consideration is summarized below.

Taxpayer is a taxable State X business corporation organized on Date A. On Date B, Taxpayer's shareholders contributed all of their stock in Taxpayer to Parent, a State X nonprofit corporation exempt from federal income tax under section 501(c)(3) of the Code, as evidenced by an exemption letter dated Date C. Parent is the sole shareholder of Taxpayer. Taxpayer's sole asset is Property, which Taxpayer and Parent use to provide Charitable Service in City Y and the surrounding area.

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State X nonprofit corporations are exempt from state and local income taxation, and local real property taxation. Taxpayer is subject to state and local tax assessment because it is not a State X nonprofit corporation. To finance its local tax liability, Taxpayer has leased a portion of Property to various tenants. Leasing a portion of Property has severely limited Taxpayer and Parent's ability to provide Charitable Service.

State X law provides that a business corporation may convert into a nonprofit corporation upon filing Certificates with State X. To eliminate its state and local tax burden and to enable expansion of Charitable Service, Taxpayer wishes to convert to a State X nonprofit corporation. Taxpayer proposes to amend its Certificate of Incorporation and Bylaws to qualify as a nonprofit corporation under the laws of State X and to file Certificates with State X in accordance with the applicable section of the corporation law of State X.

In connection with the ruling request, the Taxpayer made the following representations:

1. Taxpayer has no plan or intention to request recognition of exemption from federal income tax under Section 501 or any other provision of the Code that would cause it to become a "tax-exempt" entity within the meaning of Treas. Regs. § 1.337(d)-4(c)(2).
2. Taxpayer will continue to conduct Charitable Service after the conversion.
3. Taxpayer has no plan or intention to sell or otherwise dispose of its assets after the conversion.
4. Parent has no plan or intention to liquidate or merge Taxpayer into another entity after the conversion.
5. The conversion will not cause a dissolution of Taxpayer under State X law. For purposes of State X law, Taxpayer will be the same legal entity before and after the conversion.

Based on the facts and representations set forth above, the conversion of Taxpayer from a State X taxable business corporation to a State X nonprofit corporation will not result in recognition of gain or loss under sections 336 and 337. See Section 337(d); Treas. Regs. § 1.337(d)-4(c)(2).

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on

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examination. Except as expressly provided herein, we express no opinion about the tax consequences of the proposed transaction.

A copy of this letter must be attached to any income tax return to which it is relevant. This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Associate Chief Counsel (Corporate)

By: \_\_\_\_\_

Mark S. Jennings  
Acting Chief, Branch 1