Internal Revenue Service

Department of the Treasury
Washington, DC 20224

200108050

Uniform Issue List No: 414.08-00

Contact Person:

Telephone Numbe

In Reference to: TEP:RA:T4

Date: NOV 29 2000

Legend:

Church A =
Church B =
Order B =
Organization A =
Organization B =
Organization C =
Hospital D =
Hospital E =
Hospital F =
Hospital G =

Hospital H =

Corporation I =
Conference J =
Foundation K =
Corporation L =
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Committee N =
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Foundation P =
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Hospital D Plans =
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Dear Sir/Madam:

This is in response to a ruling request submitted on your behalf by your authorized representative dated October 21, 1998, and supplemented by additional correspondence dated May 19, 1999, November 24, 1999, December 14, 1999, October 19, 2000 and November 13, 2000. The ruling request concerns whether certain employee benefit plans constitute "church plans" under section 414(e) of the Internal Revenue Code (the "Code").

The following facts and representations have been submitted:

Organization A is a State Z non-profit corporation. Organization A is recognized as a tax-exempt organization described in section 501(c)(3) of the Code and has been determined not to be an organization described in section 509(a) of the Code by a letter ruling from the Internal Revenue Service dated December 8, 1988. Organization A is also a Church A health services organization. Organization A is the parent corporation and sole corporate member of three wholly owned subsidiaries: Hospital D, Hospital E, and Hospital F. Organization A wholly controls Hospital G and Corporation I.

Under the Articles of Incorporation of Organization A, two of Organization A's purposes are: (1) to operate exclusively for the benefit of, to perform the functions of, to carry out the purposes of Hospital D and such other not-for-profit health care providers

organized for charitable purposes as the Board of Trustees may from time to time determine (collectively, the "Supported Charities") and shall be operated, supervised, or controlled by or in connection with, the Supported Charities; and (2) to operate exclusively for charitable, benevolent, educational, and scientific purposes in furtherance of the charitable, benevolent, educational and scientific purposes now or at any time hereafter fostered by the Supported Charities.

The Bylaws of Organization A provide, in part, that: (1) Organization A shall be organized as a not-for-profit corporation established to govern, supervise, and control its various subsidiaries, including Hospital D, Hospital E, and Hospital F, and (2) Organization A shall itself operate exclusively for charitable, benevolent, educational and scientific purposes in furtherance of the charitable, benevolent, and educational and scientific purposes now or at any time hereafter fostered by it or its subsidiaries, including, without limitation, making distributions to Organization A and its subsidiaries.

The Bylaws of Organization A provide that the board of directors of Organization A, who serve staggered terms, consists of no more than 10 members. The members include the chairman of the Organization A board of directors, the immediate past chairman of the Organization A board of directors, and the chair-elect of the Organization A board of directors. The members of Organization A's board of directors are elected for a term of three years by Conference J at its Annual Session. A majority of the members of the Organization A board of directors must be members of the board of directors of Hospital D.

Hospital D is a State Z non-profit corporation. Hospital D is recognized as a tax-exempt organization described in section 501(c)(3) of the Code by a letter ruling from the Internal Revenue Service dated October 27, 1959. Hospital D is a Church A health services organization whose purpose is to operate exclusively for charitable, educational and scientific purposes. Under the Bylaws two of Hospital D's purposes are: (1) to establish, equip, operate, and maintain a Christian, benevolent, charitable, and scientific institution, not-for-profit, for giving medical and surgical care to the sick, wounded, and suffering, and to operate exclusively for charitable, benevolent, educational and scientific purposes, and (2) to carry on any educational activities related to rendering care to the sick or injured or the promotion of health which in the opinion of the board may be justified by the facilities, personnel, funds or other requirements that are or can be made available.

The sole corporate member of Hospital D is Organization A. Hospital D is governed by a board of twenty-seven directors nominated by Board M of Conference J and elected by Conference J at its Annual Session. Hospital D's board of directors must be elected in accordance with the Church A Book. Up to seven members of the board of directors may be clergy members.

Hospital E is a State Z non-profit corporation. Hospital E is recognized as a tax-exempt organization described in section 501(c)(3) of the Code and has been determined not to be an organization described in section 509(a) of the Code by a determination letter from the Internal Revenue Service effective August 4, 1988. Hospital E is a Church A health services organization whose purpose is to operate exclusively for charitable, educational and

scientific purposes. The Bylaws of Hospital D described above are also included in Hospital E's Bylaws.

The sole corporate member of Hospital E is Organization A. Hospital E is governed by a board of not less than three nor more than eight elected directors nominated by Board M of Conference J and elected by Conference J at its Annual Session. Hospital E's board of directors must be elected in accordance with the Church A Book. Up to three members of the board of directors may be clergy members. At all times, no less than three-fifths of the board of directors shall be members of Church A.

Hospital F is a State Z non-profit corporation. Hospital F is recognized as a tax-exempt organization described in section 501(c)(3) of the Code and has been determined not to be an organization described in section 509(a) of the Code by a determination letter from the Internal Revenue Service dated November 9, 1992. Hospital F is a Church A health services organization whose purpose is to operate exclusively for charitable, educational and scientific purposes. The Bylaws of Hospital D described above are also included in Hospital F's Bylaws.

The sole corporate member of Hospital F is Organization A. Hospital F is governed by a board of directors of not less than three nor more than eleven directors nominated by Hospital F's board of directors and approved and elected by Organization A. Organization A has the power to approve or disapprove all actions of Hospital F's board of directors, pertaining to management of Hospital F and its financial affairs.

Prior to the establishment of Organization C on June 10, 1998, Hospital G was a State Z non-profit corporation which was not exempt from federal income tax. Hospital G was a Church A health services organization that was wholly controlled by Organization A.

Prior to the establishment of Organization C on June 10, 1998, Corporation I was a State Z for profit corporation which was not exempt from federal income tax. Corporation I was a Church A health services organization that was wholly controlled by Organization A.

Prior to the establishment of Organization C on June 10, 1998, Hospital D maintained retirement and health and welfare plans (Plans V-1 through V-5, collectively referred to as Hospital D Plans); Hospital E maintained retirement and health plans (Plans W-1 and W-2, collectively referred to as Hospital E Plans); and Hospital F maintained a health plan (Hospital F Plan) for their employees. Employees of Hospital G and Corporation I participated in Plan V-5, a group term life insurance plan

It is represented that, prior to the establishment of Organization C on June 10, 1998, Plan V-5 was the only plan of Hospital D, E or F that covered employees of taxable entities, Hospital G and Corporation I. It is also represented that the total number of employees of taxable entities who participated in Plan V-5 was less than three percent of the total of all employees who participated in Plan V-5.

It is further represented that the Hospital D Plans (other than Plan V-1), the Hospital E Plans and the Hospital F Plan have since their inception been administered by Committee N whose sole purpose was the administration of such Plans. Pursuant to section 414(e)(4) of the Code, Plan V-1 was amended in 1999 to replace the plan administrator with a committee whose sole purpose is the administration of Plan V-1, to be effective as of January 1, 1964, the original effective date of the Plan.

Conference J is comprised of approximately 230 cooperating churches in State Z which have a combined membership of over 72,674 people. Churches of Conference J voluntarily cooperate with the religious mission of Conference J and help support its service programs. Organization A receives financial and other support from Conference J, with whom it has a covenant relationship, which provides financial support for programs relating to nursing education, the training of clergy in hospital visitation skills, and making pastoral care available to all of the patients in each of its hospitals. Organization A has regularly scheduled Church A religious services in all of its facilities, with full-time, paid Church A ministers on the staff, and chapels that are set aside and dedicated to religious purposes for patients, families, and employees. There are three chapels in the hospitals of Organization A, and there are three full-time Church A chaplains serving Organization A. There is a covenant relationship with Conference J, which provides active interchange between the churches of Church A and Organization A. The annual conference appoints persons to be liaisons with Organization A and each of its subsidiaries, with clergy appointees required to be Church A ministers in Conference J. Each Church A minister who serves within Organization A is required to be appointed by his or her bishop under the provisions of the Church A Book. There are health education programs in Church A churches in the area which Organization A serves on a continuing basis.

It is represented that Conference J is a connectional structure of cooperating churches in State Z. All members of Conference J voluntarily cooperate with and help support the service programs of Church A through Conference J. It is further represented that Conference J constitutes a congregation or association of churches within the meaning of section 414(e)(1) of the Code.

Organization B, a non-profit corporation, was founded by Order B, a religious order of women organized within, and sharing common religious bonds and convictions with, Church B. Order B is run by a general council consisting of members of Order B. Order B is listed in the Church B Directory. Order B founded Organization B in furtherance of its mission within Church B to help the poor and sick. The sole members of Organization B are Order B's general council. The purposes of Organization B are consistent with Order B and its function to carry out Order B's mission and philosophy of health care in accordance with the ethical principles of Church B.

Organization B received an advisory opinion from the Department of Labor dated December 20, 1991 that its employee benefit plans and those of its participating hospitals, including Hospital H, were church plans within the meaning of section 3(33)(A) of the Employee Retirement Income Security Act of 1974 (ERISA). The advisory opinion also referred to private letter rulings issued by the Internal Revenue Service on September 28,

1988 which concluded the plans were church plans within the meaning of section 414(e) of the Code.

Hospital H is a State Z non-profit corporation represented to be exempt from federal income tax as an organization described under section 501(c)(3) of the Code. Hospital H is a health services organization whose purposes include: (1) owning, leasing, operating and/or controlling, directly or indirectly, hospital, medical health care, clinical, research and nursing systems, organizations and physicians, nurses and specialists in allied fields, and for the provision of other services and items related to any of the foregoing or desirable in order to promote the public health, including serving the medically underserved; and (2) providing management, advisory, service and financial assistance and support to other health care related organizations or operations which may be involved in carrying out the promotion of public health purposes of Hospital H.

Foundation K is a State Z non-profit corporation represented to be exempt from federal income tax as an organization described under section 501(c)(3) of the Code. Prior to the establishment of Organization C on June 10, 1998, Foundation K was wholly controlled by Hospital H and its board of directors was appointed by Hospital H. Foundation K was the development and fund-raising organization for Hospital H.

Corporation L is a State Z non-profit corporation. Corporation L is recognized as a tax-exempt organization described in section 501(c)(3) of the Code and has been determined not to be an organization described in section 509(a) of the Code by a letter ruling from the Internal Revenue Service dated May 29, 1998. Prior to the establishment of Organization C on June 10, 1998, Corporation L was wholly-owned by Hospital H and its board of directors was appointed solely by Hospital H.

Prior to June 10, 1998, Hospital H participated in the employee benefit plans maintained by Organization B. Effective June 10, 1998, Hospital H withdrew from participation in Organization B's plans and maintained Plans X-1 through X-8 (collectively referred to as Hospital H Plans) for the benefit of its employees and the employees of Foundation K and Corporation L.

It has been represented that from June 10, 1998 to January 1, 1999, the Hospital H Plans were administered by a committee appointed by the Board of Directors of Hospital H. The committee consisted of at least three individuals one of whom was required to be an officer or manager of Hospital H and the others who were members of the Hospital H Board of Directors. The administrative committee had oversight authority over all the benefit programs established under Hospital H and its sole responsibility was the administration and oversight of such programs.

Organization C is a State Z non-profit corporation which was established on June 10, 1998 through the merger of Organization A and Organization B. Organization C is recognized as a tax-exempt organization described in section 501(c)(3) of the Code and has been determined not to be an organization described in section 509(a) of the Code by a letter ruling from the Internal Revenue Service dated November 16, 1998. Organization C was

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created to combine the competing separate health systems operated by Organization A and Organization B into a single, unified health services organization whose purposes include to operate exclusively for religious, charitable, scientific, literary and educational purposes. Organization A operated Hospitals D, E, F and G and Corporation I. Organization B operated Hospital H, Foundation K and Corporation L.

In all matters relating to the operation of Organization C the ethical and religious directives for Church B health facilities and the Church A Book are to be respected. Organization C is a membership corporation equally controlled by its two members, Organization A and Organization B. Organization C is governed by a board of seventeen directors (Organization C Board of Directors) which is divided into the following four classes: (1) Class A Directors; (2) Class B Directors; (3) Class C Directors; and (4) the Ex-Officio Director. Organization A and Organization B each have the exclusive right and power to select and appoint two Class A Directors, three Class B Directors and three Class C Directors. Directors appointed by Organization A may be removed only by Organization A and Directors appointed by Organization B may be removed only by Organization B. The chief executive officer of Organization C serves as the Ex-Officio Director.

Effective June 10, 1998, Organization C became the sole corporate member of Hospital D, Hospital E, Hospital F and Hospital H. Effective June 10, 1998, Hospital G and Corporation I were merged into Organization C and ceased being taxable entities and became part of the tax exempt structure of Organization C. As a result of the merger, employees of Hospital G and Corporation I became employees of Organization C. However, Hospital G and Corporation I continue to operate under their original names.

Effective with the creation of Organization C on June 10, 1998, all of the employees of Foundation K were transferred to Organization C. Foundation K was renamed Foundation P which continues as a separate wholly owned entity of Organization C. Accordingly, employees of the former Foundation K are now employees of Organization C employed in Foundation P. Also effective June 10, 1998, Corporation L continued as a separate wholly owned entity of Organization C.

From June 10, 1998 to January 1, 1999, Organization A continued to maintain Hospital D Plans, Hospital E Plans and the Hospital F Plan. Prior to June 10, 1998, the Hospital H Plans were part of Organization B. Effective June 10, 1998, Hospital H withdrew as a participating hospital in Organization B. From June 10, 1998 to January 1, 1999, Hospital H continued to maintain the Hospital H Plans. Effective January 1, 1999, all of the Hospital D Plans, Hospital E Plans, and the Hospital F Plan were either frozen and/or terminated and participation in those plans by Organization A entities ceased.

Effective on January 1, 1999, Hospital H Plans X-1, X-2 and X-8 became Organization C Plans and were renamed Organization C Plans Y-1, Y-2 and Y-3, respectively. Effective January 1, 1999, Hospital H adopted Organization C Plans Y-4 through Y-7 for the benefit of its employees and Hospital H Plans X-3 through X-7 were terminated as of the same date. Also effective January 1, 1999, all of the Organization A

entities adopted the Organization C Plans for the benefit of their employees and became participating employers in the Organization C Plans.

As a result of the merger of Hospital G and Corporation I into Organization C, all of the employees of Hospital G and Corporation I, as employees of Organization C, participate in all of the Organization C Plans. Also, the employees of Foundation P, as employees of Organization C, participate in all of the Organization C Plans. Further, employees of Corporation L participate in Organization C Plans Y-3 through Y-7.

Effective January 1, 1999 administration for all Organization C Plans, other than Plan Y-1, was transferred to a committee appointed by the Organization C Board of Directors. All members of the committee are required to be employees of Organization C. The sole responsibility of the committee is the administration and oversight of Organization C Plans, other than Plan Y-1. Administration of Plan Y-1 was transferred to Committee O, effective January 1, 1999. Committee O's sole responsibility is the administration and oversight of Plan Y-1 and two other qualified plans maintained by Organization B. The members of Committee O are appointed by the Board of Directors of Organization B and are required to share religious bonds and convictions with Church B.

In a letter dated December 14, 1999, it was represented that for purposes of section 414(e) of the Code and the request for a ruling, Church A through its Conference J with Church B through Order B formed an association of churches to provide for the rendition of healthcare services in their service area.

With respect to the foregoing, the following rulings were requested:

(1) Each of the Hospital D Plans, Hospital E Plans and the Hospital F Plan qualifies as a church plan under section 414(e) of the Code prior to June 10, 1998; and

(2) Each of the Hospital D Plans, Hospital E Plans, Hospital F Plan, Hospital H Plans and Organization C Plans qualifies as a church plan under section 414(e) of the Code on and after June 10, 1998.

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

Section 414(e)(2)(B) of the Code provides, in pertinent part, that the term "church plan" does not include a plan if less than substantially all of the individuals included in the

plan are individuals described in section 414(e)(1) or section 414(e)(3)(B), or their beneficiaries.

Under section 414(e)(3)(A) of the Code, a plan established for its employees by an employer which is not itself a church or a convention or association of churches but is associated with a church or a convention or association of churches will be treated 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.

In pertinent part, section 414(e)(3)(B) of the Code provides that an "employee" of a church or a convention or association of churches shall include an employee of an organization, whether a civil law corporation or otherwise, which is exempt from tax under section 501 of the Code, 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 of the Code shall be deemed the employer of any individual included as an employee under subparagraph (B) of section 414(e)(3).

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 a convention or association of churches if the organization shares common religious bonds and convictions with that church or convention or association of churches.

Section 414(e)(4)(A) of the Code provides that if a plan, intended to be a church plan, fails to meet one or more of the church plan requirements and corrects its failure within the correction period, then that plan shall be deemed to meet the requirements of this subsection for the year in which the correction was made and for all prior years. Section 414(e)(4)(C)(i) provides that the term "correction period" means the period ending 270 days after the date of mailing by the Secretary of a notice of default with respect to the plan's failure to meet one or more of the church plan requirements.

Section 1.414(e)-1(e) of the Income Tax Regulations provides that, for purposes of section 414(e) of the Code, the term "church" includes a religious order or a religious organization if such order or organization (1) is an integral part of a church, and (2) is engaged in carrying out the functions of a church, whether as a civil law corporation or otherwise.

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

addition, in the case of a plan established by an organization that is not itself a church or a convention or association of churches, the plan must be maintained by an organization described in section 414(e)(3)(A) of the Code.

In this case, Organization A is a non-profit corporation organized under the laws of State Z. Organization A is a Church A health services organization and is operated exclusively for charitable, benevolent, educational, and scientific purposes. Organization A is exempt from federal income tax because it is an organization described in section 501(c)(3) of the Code. The board of directors of Organization A are elected by Conference J and a majority of its members must be members of the board of directors of Hospital D. Organization A receives financial and other support from Conference J, with whom it has a covenant relationship. It is represented that Conference J is a connectional structure of cooperating churches in State Z. All members of Conference J voluntarily cooperate with and help support the service programs of Church A through Conference J. It is further represented that Conference J constitutes a congregation or association of churches within the meaning of section 414(e)(1) of the Code.

Organization B was founded by Order B that is listed in the Church B Directory. Order B founded Organization B in furtherance of its mission within Church B to help the poor and sick. The sole members of Organization B are Order B's general council. The purposes of Organization B are consistent with Order B and its function to carry out Order B's mission and philosophy of health care in accordance with the ethical principles of Church B.

Organization C is a non-profit corporation organized under the laws of State Z. Organization C was established on June 10, 1998 through a merger of Organization A and Organization B to combine two competing health systems into a single, unified health services organization operating exclusively for religious, charitable, scientific, literary and educational purposes. Organization C is exempt from federal income tax because it is an organization described in section 501(c)(3) of the Code. Organization C is equally controlled by its two members, Organization A and Organization B. Organization A and Organization B each have the exclusive right and power to select and appoint the same number of directors to the board of directors. Further, directors appointed by each Organization may be removed only by that Organization. In connection with the formation of Organization C, it is represented that Church A through its Conference J with Church B through Order B formed an association of churches to provide for the rendition of healthcare services in their service area. Under these circumstances the association of Churches A and B (an association of churches) has indirect control over Organization C.

The following concerns the entities controlled by Organization A, Organization B and Organization C:

Prior to June 10, 1998, Organization A was the parent corporation and sole corporate member of three wholly owned subsidiaries: Hospital D, Hospital E and Hospital F. Organization A wholly controlled Hospital G and Corporation I.

Hospital D, Hospital E and Hospital F are non-profit corporations organized under the laws of State Z. These Hospitals are Church A health services organizations operated exclusively for charitable, educational and scientific purposes and are exempt from federal income tax because they are organizations described in section 501(c)(3) of the Code. Prior to June 10, 1998, the board of directors of Hospital D and Hospital E were nominated by Board M of Conference J and elected by Conference J. The board of directors of Hospital F were nominated by Hospital F's board of directors and approved and elected by Organization A. Organization A had the power to approve or disapprove all actions of Hospital F's board of directors, pertaining to management of Hospital F and its financial affairs.

Prior to June 10, 1998, Hospital G was a non-profit corporation organized under the laws of State Z that was not exempt from federal income tax. Hospital G was a Church A health services organization. Corporation I was a for profit corporation organized under the laws of State Z. Corporation I was a Church A health services organization.

Prior to June 10, 1998, Hospitals D and E were controlled by Church A through Conference J, an association of churches of Church A. Hospitals F and G and Corporation I were indirectly controlled by Church A through Conference J's control of Organization A.

Prior to June 10, 1998, Organization B was the parent and sole corporate member of Hospital H and Hospital H's two wholly owned subsidiaries, Foundation K and Corporation L.

Hospital H is a non-profit corporation organized under the laws of State Z. Hospital H is a Church B health services organization whose purposes include promoting public health, including serving the medically underserved. Hospital H is exempt from federal income tax because it is an organization described in section 501(c)(3) of the Code.

Foundation K and Corporation L are non-profit corporations organized under the laws of State Z and represented to be exempt from federal income tax as organizations described in section 501(c)(3) of the Code.

Prior to June 10, 1998, Church B indirectly controlled Hospital H, Foundation K and Corporation L through Order B's control of Organization B.

Organization A and Organization B were merged to form Organization C on June 10, 1998 to combine two health systems into a single, unified health services organization operating exclusively for religious, charitable, scientific, literary and educational purposes. Organization C is equally controlled by its two members, Organization A and Organization B. Church A and Church B, as an association of churches, indirectly control Organization C through the control of Organization A by Conference J and the control of Organization B by Order B.

Under these circumstances, prior to June 10, 1998, Hospital D, Hospital E, and Hospital F are organizations that were indirectly controlled by Church A through

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Conference J and Organization A, and on and after June 10, 1998, are indirectly controlled by an association of Churches A and B through Organization C. Under the principles of section 414(e)(3)(B) of the Code, the employees of Hospital D, Hospital E and Hospital F are employees of organizations which are exempt from tax under section 501 of the Code and which are controlled by or associated with a church or convention or association of churches. In this case, in view of the common religious bonds between Church A, Conference J and Organization A and their control over Hospitals D, E and F, the employees of Hospitals D, E and F are deemed employees of Church A prior to June 10, 1998 and, on and after that date, are deemed employees of an association of Churches A and B under section 414(e)(3)(B) of the Code for purposes of the church plan rules.

In addition, it is represented that prior to June 10, 1998, the number of employees of taxable entities Hospital G and Corporation I who participated in Plan V-5 was less than 3 percent of the total number of participants in that plan. Therefore, pursuant to section 414(e)(2)(B) of the Code, substantially all of the individuals included in Plan V-5 were individuals described in section 414(e)(1) or section 414(e)(3)(B) of the Code.

Furthermore, due to the merger of Hospital G and Corporation I into Organization C on June 10, 1998, those entities, although continuing to operate under their original names, ceased being taxable entities and their employees became employees of Organization C. On and after June 10, 1998 Hospital G and Corporation I were indirectly controlled by an association of Churches A and B through Organization C. Under the principles of section 414(e)(3)(B) of the Code, the employees of Organization C employed in Hospital G and Corporation I are employees of an organization which is exempt from tax under section 501 of the Code and which is controlled by or associated with a church or convention or association of churches. Therefore, on and after June 10, 1998, the employees of Organization C employed in Hospital G and Corporation I are deemed employees of an association of Churches A and B under section 414(e)(3)(B) of the Code for purposes of the church plan rules.

Prior to June 10, 1998, Hospital H, Foundation K and Corporation L are organizations that were indirectly controlled by Church B through Organization B and, on and after June 10, 1998, are indirectly controlled by an association of Churches A and B through Organization C. Under the principles of section 414(e)(3)(B) of the Code, the employees of Hospital H, the employees of Organization C employed in Foundation P (former Foundation K employees who were transferred to Organization C), and the employees of Corporation L are employees of organizations which are exempt from tax under section 501 of the Code and which are controlled by or associated with a church or convention or association of churches. In this case, in view of the common religious bonds between Church B and Organization B and their control over Hospital H, Foundation K and Corporation L, the employees of Hospital H, Foundation K and Corporation L are deemed employees of Church B prior to June 10, 1998 and, on and after that date, employees of Hospital H, employees of Organization C employed in Foundation P and employees of Corporation L are deemed employees of an association of Churches A and B under section 414(e)(3)(B) of the Code for purposes of the church plan rules.

Having established that the employees of Hospitals D, E, and F are deemed to be employees of Church A or an association of Churches A and B and that the employees of Hospital H, Foundation K and Corporation L are deemed to be employees of Church B or an association of Churches A and B and, that on and after June 10, 1998, the employees of Organization C employed in Hospital G, Corporation I, and Foundation P are deemed to be employees of an association of Churches A and B, the remaining issue is whether the retirement committees administering the Hospital D Plans, Hospital E Plans, Hospital F Plan, Hospital H Plans and the Organization C Plans were or are, as in the case of the Organization C Plans, organizations controlled by or associated with a church or a convention or association of churches, the principal purpose or function of which is the administration or funding of a plan or program within the meaning of section 414(e)(3)(A) of the Code.

Prior to January 1, 1999, the Hospital D Plans, Hospital E Plans, and Hospital F Plans, except for Plan V-1, were administered by Committee N. Committee N was appointed by the Board of Directors of Hospital D. Committee N had oversight authority over all of the benefit programs, except for Plan V-1, established under Organization A and its sole responsibility was the administration and oversight of such programs. Hospital D is controlled by and associated with Church A through Conference J and Organization A.

Pursuant to section 414(e)(4) of the Code, the plan administrator of Plan V-1 was changed from Hospital D, the sponsor, to the administrative committee of the Organization C Plans whose sole function is the administration of Organization C Plans. Under section 414(e)(4) of the Code, if a plan intended to be a church plan fails to meet one or more church plan requirements and corrects its failure within the statutorily-defined correction period, then the plan shall be deemed to meet the requirements of section 414(e) for the year in which the correction was made and for all prior years. In this case, the failure of Plan V-1 to satisfy the requirements of section 414(e)(3)(A) of the Code for years prior to 1999 was corrected within the correction period defined in section 414(e)(4)(C)(i), and Plan V-1 is deemed to meet the requirements of section 414(e)(3)(A) for the year in which the correction was made (1999) and for all prior years pursuant to section 414(e)(4)(A).

Prior to January 1, 1999, the Hospital H Plans were administered by an administrative committee appointed by the Board of Directors of Hospital H. The administrative committee had oversight authority over all the benefit programs established under Hospital H and its sole responsibility was the administration and oversight of such programs. Hospital H is controlled by and associated with Church B through Order B and Organization B. With respect to the Hospital H Plans, for the period from June 10, 1998 through December 31, 1998, the administrative committee was an organization indirectly controlled by Church B.

Effective January 1, 1999, all Organization C Plans, other than Plan Y-1 (formerly Plan X-1), are administered by a committee appointed by the Organization C Board of Directors. The sole responsibility of the committee is the administration and oversight of Organization C Plans. The administrative committee is controlled by Organization C which, in turn, is controlled by an association of Churches A and B. The administration of Plan Y-1

was transferred to Committee O which is controlled by Organization B. Because Organization B is controlled by Church B through Order B, Committee O is an organization indirectly controlled by Church B.

Accordingly, with respect to ruling request one, we conclude that each of the Hospital D Plans, Hospital E Plans and the Hospital F Plan qualifies as a church plan under section 414(e) of the Code prior to June 10, 1998.

With respect to ruling request two, we conclude that each of the Hospital D Plans, Hospital E Plans, Hospital F Plan, Hospital H Plans and Organization C Plans qualifies as a church plan under section 414(e) of the Code on and after June 10, 1998.

This letter expresses no opinion as to whether Plans V-1, V-2, X-1, or Y-1 satisfy 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 Area Manager's Office of the Internal Revenue Service. Similarly, this letter expresses no opinion as to whether Plans V-3, W-1, X-2 or Y-2 meet the requirements of section 403(b) of the Code. Furthermore, this letter expresses no opinion as to whether Plans X-7 and Y-7 are cafeteria plans within the meaning of section 125 of the Code.

This letter expresses no opinion as to whether any organization referred to above is a "church" or a "qualified church-controlled organization" within the meaning of section 3121(w) of the Code.

This ruling is directed only to the taxpayer that requested it and applies only with respect to the Hospital D, Hospital E, Hospital F, Hospital H and Organization C Plans as submitted with this request. Section 6110(k)(3) of the Code provides that this private letter ruling may not be used or cited as precedent.

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

Sincerely yours,

John G. Riddle, Jr.

John G. Riddle, Jr., Manager
Employee Plans Technical Group 4
Tax Exempt and Government Entities Division

Enclosures:
Deleted Copy of the Letter
Notice 437
Copy of Letter to Authorized Representative