513.00-00

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

200222031

Date:
3/4/02

Contact Person:

Identification Number:

Telephone Number:

T:EO:B4

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Employer Identification Number:

Legend:
B:
C:
D:

Dear Taxpayer:

We have considered B's ruling request regarding whether income from operating a call center will constitute unrelated business income under sections 512 and 513 of the Internal Revenue Code.

Facts

B provides emergency medical care and rescue services to the general public through the provision of ground ambulance, fixed wing air and helicopter transportation to C. B is a not-for-profit corporation that qualifies for exemption as a charitable organization under section 501(c)(3) of the Code.

B owns its principal offices and buildings, ground ambulances, helicopter, communications equipment and other related equipment. B currently employs emergency medical technicians, rescue workers, ambulance drivers, nurses, dispatchers and administrative personnel. B provides varying types of emergency services to contracting cities, towns and counties, depending on what services the municipality provides for itself. Funding for the services provided by B comes from individual customers and their health insurance companies, governmental service contract fees, and other miscellaneous income including private contributions and interest income. All of B's expenditures are in furtherance of its primary purpose.

B's main stated purpose in its articles of incorporation is "to provide for the administration of emergency medical attention, care and treatment." As a part of that purpose, B currently

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operates the local 9-1-1 dispatch system for emergency medical service. The 9-1-1 dispatch center operates state of the art communications equipment to communicate with the general public and emergency vehicles that are dispatched on calls. In addition, every dispatcher is trained to give lifesaving instructions prior to the arrival of an ambulance. Because of B's extensive communications abilities and infrastructure and because of a perceived widespread dissatisfaction with existing services, the local hospital has periodically asked that B operate a call center so that the hospital and members of the community can reach local physicians outside their normal business hours and have messages reliably relayed to them. At the present time, it appears that there is no one in the local community that is providing a service that satisfactorily meets this need.

B's board of directors has approved the implementation of a plan to establish a call center to provide this service. It will be available during B's fiscal year ending D to any physician or medical provider that requests the service. Medical personnel contracting for this service will pay a fee for this service. Dispatch employees will be cross-trained to be able to work either the call center or the 9-1-1 system, which will be housed in the same dispatch center. The cross-training will enable the call taker to give life saving instructions, if needed, to callers who could not reach their physician. In addition, if a caller to the call center had an emergency in which they could not reach their physician, an ambulance could be dispatched immediately without the caller having to redial into the 9-1-1 system. This has the potential to save several minutes of response time, time that could be critical in an emergency situation.

The following rulings have been requested:

1) That the operation of the call center, as proposed, is in furtherance of the organization's exempt purpose,

2) That the operation of the call center, as proposed, is substantially related to the organization's performance of its exempt function,

3) That the operation of the call center, as proposed, does not meet the definition of an unrelated trade or business under section 513 of the Code and the income from the call center is not unrelated business taxable income under section 512, nor is it subject to the tax imposed by section 511.

Law

Section 501(c)(3) of the Code provides, in part, an exemption from federal income tax for a corporation organized and operated exclusively for charitable, scientific or educational purposes provided no part of the corporation's net earnings inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations provides that in order to be exempt as an organization described in section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more of the purposes specified in such section.

Section 1.501(c)(3)-1(c)(1) of the 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 any exempt purpose.

Section 1.501(c)(3)-1(d)(2) of the regulations states that the term "charitable" is used in the generally accepted legal sense and includes lessening of the burdens of government and relief of the distressed.

Section 1.501(c)(3)-1(e)(1) of the regulations provides that an organization may meet the requirements of section 501(c)(3) of the Code although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in section 513. In determining the existence or nonexistence of such primary purpose, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities which are in furtherance of one or more exempt purposes.

Section 511 of the Code, in part, imposes a tax on the unrelated business taxable income of organizations described in section 501(c)(3).

Section 512 of the Code defines the term "unrelated business taxable income" as the gross income derived by any organization from any unrelated trade or business (as defined in section 513) regularly carried on by it, less the deductions which are directly connected with carrying on the trade or business, with certain modifications.

Section 513(a) of the Code defines unrelated trade or business as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of the charitable, educational, or other purpose constituting the basis for its exemption under section 501.

Section 1.513-1(a) of the regulations provides that gross income of an exempt organization subject to tax imposed by section 511 of the Code is includable in the computation of unrelated business taxable income if: (1) it is income from a trade or business; (2) such trade or business is regularly carried on by the organization; and (3) the conduct of such trade or business is not substantially related (other than through the production of funds) to the organization's performance of its exempt functions.

Section 1.513-1(b) of the regulations provides that, in general, any activity of an exempt organization which is carried on for the production of income and which otherwise possesses the characteristics required to constitute "trade or business" within the meaning of section 162 of the Code is a trade or business for purposes of sections 511-513. The regulation further provides that the term "trade or business" generally includes any activity carried on for the production of income from the sale of goods or performance of services.

Section 1.513-1(d)(1) of the regulations provides that, in general, gross income derives from "unrelated trade or business," within the meaning of section 513(a) of the Code, if the conduct of the trade or business which produces the income is not substantially related (other than through the production of funds) to the purposes for which exemption is granted. The presence of this requirement necessitates an examination of the relationship between the business activities which generate the particular income in question--the activities, that is, of

producing or distributing the goods or performing the services involved--and the accomplishment of the organization's exempt purposes.

Section 1.513-1(d)(2) of the regulations provides that trade or business is "related" to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes, and is "substantially related," for purposes of section 513 of the Code, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes. Where the production or distribution of the goods or the performance of the services does not contribute importantly to the accomplishment of the exempt purposes of an organization, the income from the sale of the goods or the performance of the services does not derive from the conduct of related trade or business. Whether activities productive of gross income contribute importantly to the accomplishment of any purpose for which an organization is granted exemption depends in each case upon the facts and circumstances involved.

Analysis

B proposes to expand its services to include a call center so local physicians and medical providers can be contacted for emergencies outside normal business hours. This service will be fee-based, with physicians and medical providers who contract with the organization paying the fee.

B's proposed expansion of the call center operation is in furtherance of and substantially related to B's exempt purpose of providing for "the administration of emergency medical attention, care and treatment." The general public may utilize the call center to reach contracting local physicians and medical providers outside their normal business hours and have messages reliably relayed to them. In the event the requested contracting physicians and medical provider cannot be reached and emergency care is necessary, emergency vehicles can be dispatched immediately. Like the transportation portion of the organization's services, this service will provide quicker medical response time to the general public in need of medical attention, thereby furthering B's exempt purpose.

Because B's proposed expansion of its call center is in furtherance of and substantially related to B's exempt purpose, it does not meet the definition of an unrelated trade or business as defined in section 513 and the gross income derived from the activity is not unrelated business taxable income as defined in section 512.

Rulings

Based on your representations, we rule as follows:

1) That the operation of the call center, as proposed, is in furtherance of the organization's exempt purpose.

2) That the operation of the call center, as proposed, is substantially related to the organization's performance of its exempt function.

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3) That the operation of the call center, as proposed, does not meet the definition of an unrelated trade or business under section 513 of the Code, and the income from the call center is not unrelated business taxable income under section 512, nor is it subject to the tax imposed by section 511.

Because this ruling could help resolve future questions about your federal income tax status, you should keep it in your permanent records.

This ruling is directed only to the organizations and trustees 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,

Gerald V. Sack

Gerald V. Sack
Manager, Exempt Organizations
Technical Group 4