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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Significant Issue Nos.: 4945.04-00
4942.03-05

Date: 2 4 2002

Contact Person:

Identification Number:

Telephone Number:

T:EO:B3

Employer Identification Number:

Legend:

X =
Y =
Z =
M =

Dear Sir or Madam:

This is in reference to a ruling request dated March 14, 2002, submitted by representatives of X concerning the federal tax consequences under sections 4942, 4945, and 501(c)(3) of the Internal Revenue Code ("Code") of certain proposed activities described below.

X is recognized as exempt from federal income tax under section 501(c)(3) of the Code and is classified as a private foundation within the meaning of section 509(a). Y has also been recognized as exempt under section 501(c)(3) of the Code and is not a private foundation because it is an organization described in sections 509(a)(1) and 170(b)(1)(A)(vi).

X's purposes, as stated in its Articles of Incorporation, are: "To engage in missionary work on a world wide basis either directly or indirectly by assisting such organizations as do actively engage in missionary work and qualify as exempt organizations for purposes of Federal tax law. To accept, hold, invest, re-invest and administer any gifts, bequests, devises, benefits of trusts (except as trustee) and property of any sort, without limitation as to amount or value, and to use, disburse or donate the income or principal thereof for exclusively religious and charitable purposes."

In 1974, X began active conduct of exempt activities. X began producing audio recordings of the Bible in various languages and dialects, duplicating them onto audiocassette tapes and distributing the tapes free of charge to tax-exempt missionary organizations for distribution to their workers around the world. Later, X added a custom-made cassette tape player specifically designed for use in remote areas.

Y was organized for the purpose of engaging in missionary work on a worldwide basis. Funded with an initial gift from its founder and dependent on continuing support from the public, a church planting effort was started in Z and an evangelistic missionary outreach, utilizing audiocassette tape recordings of the Bible in the native languages opened in M. Also, through the in-kind grant of tapes and players from X, Y distributes free tapes of the Bible and Bible messages directly to missionaries, chaplains, pastors, friends and supporters of the ministry for use in their personal development and ministry.

In 1993, X expanded its missionary outreach to include chaplains in U.S. jails and prisons. In addition to the free audiocassette tapes and cassette tape players distributed through Y, free Bible based reading material, a videotape lending program and personal on-site visits by X's ordained minister in charge, were offered. As a result of these visits, X became aware of the need for more support and training of prison chaplains. X began organizing and conducting 3-day chaplain enrichment seminars focusing on topics specifically designed to equip prison chaplains to effectively present the Gospel message to inmates. The seminars include presentations by renowned Christian speakers on subjects designed to strengthen the chaplains' grasp of the Bible and equip them to teach Biblical truth that can change the lives of prison inmates. The seminars are open to any chaplain who ministers to the incarcerated or those in need (subject to space availability). The spouses of the chaplains are also invited to attend, so they may become more knowledgeable and supportive of their husband's or wife's ministry. Each chaplain must pay for his travel expenses to the seminars, which are held at convenient locations throughout the United States. Lodging, food, tips, speaker fees and other seminar costs are paid by X. Attendees may select from three different topics at three different times (Spring, Summer, Fall) and at three different locations (Midwest, West, East), but must register in advance since available space is limited to about 100 persons for each seminar. Tapes of the seminars are available to attendees and to chaplains not able to attend the seminars. X's future plans include permanent training centers for prison chaplains and missionaries. X also plans to offer to the chaplains the free audiocassette tapes and cassette tape players currently distributed by Y.

As a result of the response received by X from the chaplain enrichment seminars, Y, in 1998 began to look at the possibility of religious training seminars for all evangelical missionaries, pastors and other church leaders in Z. Y had for several years held annual training and planning sessions for its own missionaries in Z The planning became reality in 2000. The response from the first meeting resulted in a promise to the attendees to try and find the financial means for a second, more intensive training scheduled for 2001. Y, realizing its potential public support base could not handle the anticipated financial requirements, approached X about assuming the administration/financial responsibility of the annual seminars and the operation of a Bible training school. Each seminar would be 3 to 5 days in length focussed on intensive pastoral training for religious leaders and missionaries in Z or surrounding countries and open to any religious leader or missionary wishing to attend, subject to space availability. Attendees would pay a small registration fee and travel expenses and X would be responsible for lodging, food, tips, speakers, translators and all other seminar related costs. Y would continue to fund the renovations of the Bible training school buildings, but X would accept responsibility for establishing, funding and carrying out the effective administration of the school.

Section 501(c)(3) of the Code provides, in part, for the exemption from federal income tax of organizations organized and operated exclusively for religious, charitable, or educational purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides the term "charitable" as used in section 501(c)(3) includes the relief of the poor and distressed or of the underprivileged and the advancement of religion.

Section 4942(a) of the Code imposes a tax on the undistributed income of a private foundation.

Section 4942(c) of the Code provides the term "undistributed income" means, with respect to any private foundation for any taxable year as of any time, the amount by which -

(1) the distributable amount for such taxable year, exceeds

(2) the qualifying distributions made before such time out of such distributable amount.

Under section 4942(g)(1) of the Code, the term "qualifying distribution" means any amount (including that portion of reasonable and necessary administrative expenses) paid to accomplish one or more purposes described in section 170(c)(2)(B). Section 170(c)(2)(B) purposes include religious, charitable and educational purposes. The term also includes any amount paid to acquire an asset used (or held for use) directly in carrying out one or more purposes described in section 170(c)(2)(B).

Section 4945(a) of the Code imposes a tax on each taxable expenditure made by private foundations.

Section 4945(d)(3) of the Code provides the term "taxable expenditure" includes any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purposes unless the grant satisfies the requirements of subsection (g).

Section 4945(d)(5) of the Code provides that the term "taxable expenditure" includes any amount paid or incurred for any purpose other than one specified in section 170(c)(2)(B).

Expenditures made by X in distributing audiocassette tapes, cassette tape players and Bible-based printed materials to prison chaplains, are made exclusively to assist the chaplains in performing their charitable and religious activities.

Expenditures made by X in organizing and conducting religious training seminars for prison chaplains, including the establishment and operation of training centers, are made exclusively to strengthen the chaplains' grasp of the Bible and equip them to teach Biblical truth that can change the lives of prison inmates. These expenditures qualify as the advancement of religion and are, thus, religious and charitable in nature.

Expenditures to be made by X in organizing and conducting religious training seminars for missionaries, pastors, and other church leaders, including the establishment and operation

of training centers are made for the purpose of intensive pastoral training for religious leaders, and missionaries. These expenditures qualify as the advancement of religion and are, thus, religious and charitable in nature.

Since the expenditures described above are for religious and charitable purposes and are not grants to individuals for travel, study or other similar purposes, they are qualifying distributions within the meaning of section 4945(g) of the Code and are not taxable expenditures as defined in section 4945(d).

Accordingly, we conclude as follows:

1. Expenditures made (or to be made) by X in distributing audiocassette tapes, cassette tape players and Bible-based printed materials to prison chaplains are not "taxable expenditures" within the meaning of section 4945 of the Code and are, therefore, not subject to the tax imposed by that section.

2. Expenditures made by X in organizing and conducting religious training seminars for prison chaplains, including the establishment and operation of training centers, are not "taxable expenditures" within the meaning of section 4945 and are, therefore, not subject to the tax imposed by that section.

3. Expenditures to be made by X in organizing and conducting religious training seminars for missionaries, pastors and other church leaders, including the establishment and operation of training centers, will not be "taxable expenditures" within the meaning of section 4945 and would, therefore, not be subject to the tax imposed by that section.

4. The expenditures mentioned in items 1 through 3 above are "qualifying distributions" within the meaning of section 4942(g) of the Code.

5. The activities described herein do not adversely affect X's exemption under section 501(c)(3) of the Code.

These rulings are based on the understanding that there will be no material changes in the facts upon which they are based.

Also, these rulings are directed only to the organization that requested them. Section 6110(k)(3) of the Code provides that these rulings may not be used or cited by others 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) Robert C Harper, Jr.

Robert C. Harper, Jr.
Manager, Exempt Organizations
Technical Group 3