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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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Legend:

Church C =

Church D =

Corporation M =

Corporation N =

Corporation O =

Corporation P =

Corporation Q =

Corporation R =

Joint Venture V =

Plan X =

Committee C =

Directory M =

Yearbook Y =

This is in response to a ruling request dated November 30, 2001, as supplemented by additional correspondence dated May 24, and October 24, 2002, in which your authorized representative requests a ruling on your behalf, concerning whether Plan X qualifies as a church plan under section 414(e) of the Internal Revenue Code.

The following facts and representations have been submitted on your behalf:

Corporation N established Plan X for its lay employees and the lay employees of the members of its controlled group of corporations and certain other employers, effective January 1, 1997. The other employers include Corporations O, P, and Q. Effective January 1, 1998, coverage was extended to Joint Venture V and Corporation M, which is associated with Church D.

Corporation N was created in 1996 to carry out a portion of the health care ministry of Church C and of the religious institutes sponsoring Corporation N (Sponsoring Congregations). Corporation N's mission is to nurture the healing ministry of Church C by emphasizing human dignity and social justice while moving toward the creation of healthier communities. The mission is carried out through various health care facilities operated by members of its controlled group in over twenty-two states. The health care facilities are managed and directed according to the ethical and religious directives for Church C health facilities promulgated by the National Conference of Church C Bishops. Corporation N is sponsored by religious institutes of Church C. There are two categories of Sponsoring Congregations: active Sponsoring Congregations and honorary Sponsoring Congregations. Active Sponsoring Congregations have among other rights, the right to elect the Members of Corporation N. Members' rights, in turn, include the right to appoint from two to five members from active Sponsoring Congregations to serve on Corporation N's Board of Stewardship Trustees (the Board). These appointed Board members then elect the remaining members of the Board. Honorary Sponsoring Congregations have fewer rights and responsibilities than active Sponsoring Congregations. The management of Corporation N is controlled by the Board. One half of the Board's membership must be members of religious institutes and an equal number are to be lay persons. A majority of the Board shall at all times be members of Church C. The Sponsoring Congregations, Corporation N and many members of Corporation N's controlled group are listed in Directory M, the official Church C directory for the United States. Corporation N and most of the members of its controlled group are described in section 501(c)(3) of the Code and are tax-exempt under section 501(a).

Corporations O, P, and Q and Joint Venture V are listed in Directory M, are described in section 501(c)(3) of the Code and are tax-exempt under section 501(a).

Corporation M is a healthcare corporation that is listed in Yearbook Y, the yearbook of the general conference of Church D. Corporation M is described in section 501(c)(3) of the Code and is exempt from tax under section 501(a). The Articles of Corporation M provide, in part, that the purposes of this corporation are to promote the wholeness of man physically, mentally and spiritually in a manner which is consistent with the philosophy, teachings, and practices of Church D.

The bylaws of Corporation M describe the constituency of the board of trustees, the governing body of Corporation M. The trustees are appointed by Corporation R, which is the sole member of Corporation M and is also a Church D healthcare corporation which is listed in Yearbook Y. Each person serving as a trustee is required to be a member in good standing of Church D who supports the philosophy, teachings and practices of Church D and a majority must be persons who are members of specific denominational constituencies, boards or executive committees of organizations that are listed in Yearbook Y. Similarly, each member of the board of Corporation R must support the specific goals and objectives of Church D and its healthcare work. Each member of the board of Corporation R must also be a member in good and regular standing of Church D.

It is represented that in 1997 there were 48,757 Corporation N controlled group employees covered by Plan X. Of this total, 800 or 1.64% were employed by organizations that are not tax-exempt. All of the employees of participating employers that are not in the Corporation N controlled group are employed by tax-exempt organizations and are considered to be church employees.

Plan X is administered by Committee C. The five original members were appointed by the Board of Corporation N in late 1996. In 1998 when Plan X was extended to Corporation M, a sixth member was permitted to be appointed by an organization associated with Church D. Subsequently, one of the members appointed by Corporation N resigned. At the present time four of the five members have been appointed by Corporation N. Members of the Committee serve at the pleasure of the Corporation N Board or any other appointing board having responsibility for their appointment. All employers participating in Plan X cede authority to Committee C to administer Plan X on their behalf. The sole function of Committee C is to administer Plan X and other retirement and health and welfare plans maintained by Corporation N. Committee C has the duty to perform any and all acts necessary in connection with the administration of Plan X. The resolutions of the Corporation N Board appointing Committee C members and the language of the plan document require Committee C to be mindful of and act in accordance with the teachings and tenets of Church C with which it shares common bonds.

It is represented that no more than three percent of the employees participating in Plan X are permitted to be employees of non-church entities.

Based on the foregoing facts and representations, a ruling is requested that Plan X is a church plan within the meaning of section 414(e) of the Code on and after January 1, 1997, including as extended to Corporation M employees effective January 1, 1998.

Section 414(e)(1) of the Code 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.

In accordance with section 414(e)(2) of the Code, the term "church plan " does not include a plan that is established and maintained primarily for the benefit of employees (or their beneficiaries) of a church or a convention or association of churches who are employed in

connection with one or more unrelated trades or businesses (within the meaning of section 513); or if less than substantially all of the individuals included in the plan are church employees, as described in section 414(e)(1) or section 414(e)(3)(B).

Section 414(e)(3)(A) of the Code provides that a plan established and maintained for its employees (or their beneficiaries) by a church or by a convention or association of churches includes a plan 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.

Section 414(e)(3)(B) of the Code defines "employee" to include a duly ordained, commissioned, or licensed minister of a church in the exercise of his or her ministry, regardless of the source of his or her compensation, and an employee of an organization, whether a civil law corporation or otherwise, which is exempt from tax under section 501, 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 shall be deemed the employer of any individual included as an employee under subparagraph (B).

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 it shares common religious bonds and convictions with that church or convention or association of churches.

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

Corporation N is an organization described in section 501(c)(3) of the Code that is exempt from tax under section 501(a). Corporation N is listed in Directory M which is the official directory of Church C. Corporations O, P and Q and Joint Venture V similarly are organizations described in section 501(c)(3) of the Code that are exempt from tax under section 501(a) and are listed in Directory M. The Internal Revenue Service has determined that any organization listed in Directory M shares common religious bonds and convictions with Church C and is deemed associated with Church C within the meaning of section 414(e)(3)(D) of the Code. Therefore, pursuant to section 414(e)(3)(B) and (C) of the Code, the employees of Corporations N, O, P, and Q are deemed to be employees of Church C and Church C is deemed to be the employer of such employees for purposes of the church plan rules. The members of Corporation N's controlled group (many of whom are also listed in Directory M) are deemed indirectly associated with Church C by virtue of the fact that they are controlled by Corporation N. Therefore the employees of the members of Corporation N's controlled group, that are

described in section 501(c)(3) of the Code, are similarly deemed to be employees of Church C and Church C is deemed to be the employer of such employees for purposes of the church plan rules.

Corporation M is an organization described in section 501(c)(3) of the Code which is exempt from tax under section 501(a). Corporation M is associated with Church D by virtue of sharing common religious bonds and convictions as evidenced by the following:

Corporation M is listed in Yearbook Y. Corporation M's Articles provide that Corporation M is required to operate in a manner consistent with the philosophy, teachings and practices of Church D. Corporation M's board members are appointed by Corporation R, the sole member of Corporation M, which is also a healthcare corporation listed in Yearbook Y. Corporation M's board members must be members in good standing of Church D and a majority must be members of specific denominational constituencies, boards or executive committees of organizations that are listed in Yearbook Y and therefore recognized by Church D as related organizations.

Accordingly, pursuant to section 414(e)(3)(B) and (C) of the Code, the employees of Corporation M are deemed to be employees of Church D and Church D is deemed to be the employer of such employees for purposes of the church plan rules.

It is represented that in 1997, 800 or approximately 1.64% of the 48,757 employees of the Corporation N controlled group covered by Plan X were employed by organizations that are not tax-exempt. All of the employees of employers that are not in the Corporation N controlled group are employed by tax-exempt organizations and are considered to be church employees. It is also represented that no more than 3 percent of the employees participating in Plan X are permitted to be employees of non-church entities. Accordingly, the employees employed by organizations that are not tax-exempt constitute an insubstantial percentage of the participants in Plan X.

However, an organization must also establish that its plan is established and maintained by a church or a convention or association of churches or by an organization described in section 414(e)(3)(A) of the Code. To be described in section 414(e)(3)(A) of the Code, an organization must have as its principal purpose the administration of the plan and must also be controlled by or associated with a church or a convention or association of churches.

Since 1996, Plan X has been administered by Committee C. A majority of Committee C members are appointed by the Board of Corporation N and serve at the pleasure of that Board. The majority consisted of the original five members and subsequently ranged between five out of six members and four out of five members. Thus, Committee C is controlled by Corporation N. Since Committee C is controlled by Corporation N, it is indirectly associated with Church C. Further, since, as represented above, the sole purpose of Committee C is the administration of Plan X and other retirement and health and welfare plans of Corporation N, Committee C constitutes an organization described in section 414(e)(3)(A) of the Code.

Accordingly, it is concluded that that Plan X is a church plan within the meaning of section 414(e) of the Code on and after January 1, 1997, including as extended to Corporation M employees effective January 1, 1998.

This letter expresses no opinion as to whether Plan X satisfies 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 office of the Internal Revenue Service.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

In accordance with a power of attorney submitted with this ruling request, a copy of this letter has been sent to your authorized representative.

The author of this letter is who may be reached at .

Sincerely yours,

/s/ Frances V. Sloan

Frances V. Sloan
Manager, Technical Group 3
Tax Exempt and Government
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Enclosures:
Deleted copy of letter
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