

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Brighton Hospital
12851 East Grand River
Bright, Michigan 48116

Person to Contact: Mr. Chabin
Telephone Number: (202) 536-3909

Refer Reply to: OP:E:EO:R:3

Date: JAN 30 1987

Employer Identification Number: 38-1576680
District Office: Cincinnati

Legend:

- A = Brighton Hospital
- B = Brighton Health Services Corporation
- C = Brighton Hospital Institute for
Research and Education
- D = Livingston Council for Alcohol
Services, Inc.

Dear Sir or Madam:

This letter is in reference to the request for rulings regarding the described proposed corporate reorganization and other transactions related thereto.

A owns and operates an alcohol rehabilitation facility. It has been recognized as exempt under the provisions of section 501(c)(3) of the Internal Revenue Code and is other than a private foundation because it is an organization described in section 509(a)(1) and 170(b)(1)(A)(iii). It is proposing to reorganize its structure and has established B, C, and D to carry on certain activities it previously carried on itself.

A has established B to provide strategic planning, finance, fund raising and marketing services, and overall direction to the other organizations in the system. B is exempt under section 501(c)(3) of the Code and is other than a private foundation because it is an organization described in section 509(a)(3). It will operate as the parent organization in the system. B's bylaws provide that at least 10 but no more than 49% of its trustees are trustees of A. Of the remaining trustees 3 are also trustees, of C and 3 are trustees of D.

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C was established to conduct educational programs for the training of physicians and allied health care personnel. It will also directly engage in and support medical research in conjunction with the hospital. All research programs will be structured to satisfy the requirements of section 501(c)(3). It has also conducted one fund raising program and expects to receive further public funding to support its programs. C is exempt under section 501(c)(3) of the Code and is other than a private foundation because it is an organization described in section 509(a)(1) and 170(b)(1)(A)(vi).

D was established to provide a variety of programs, including community health education and out-patient substance abuse treatment services in the community. It will also coordinate all community based educational programs in the system. It has a contract with the County to provide these services and receives both financial support and its physical site from the County. Ongoing funding is to come from fees for services rendered. D is exempt under section 501(c)(3) of the Code and is other than a private foundation because it is an organization described in section 509(a)(2).

Section 170 of the Code provides, in part, for the allowance of charitable contribution deductions to organizations described in section 501(c)(3).

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations which are organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense. In the law of charity, the promotion of health is considered to be a charitable purpose.

Section 1.501(c)(3)-1(d)(11) of the regulations provides that an organization is not organized or operated exclusively for one or more of the exempt section 501(c)(3) purposes unless it serves a public rather than a private interest. Thus, to meet the requirements of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Rev. Rul. 78-41, 1978-1 C.B. 148 holds that a trust created by an exempt hospital for the sole purpose of accumulating and holding funds to be used to satisfy malpractice claims against the hospital and from which the hospital directs the bank-trustee to make payments to claimants qualifies for exemption under section 501(c)(3) of the Code. By serving as a repository for funds paid in by the hospital, and by making payments at the direction of the hospital to persons with malpractice claims against the hospital, the trust is operating as an integral part of the hospital. The Trust is performing a function that the hospital could do directly.

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Section 509(a)(1) of the Code provides that organizations described in section 170(b)(1)(A) (other than in clauses (vii) and (viii)) are excepted from classification as private foundations.

Section 170(b)(1)(A)(iii) of the Code, in part, refers to organizations the principal purpose or function of which are the providing of medical or hospital care or medical education or medical research, if the organization is a hospital.

Section 170(b)(1)(A)(vi) of the Code describes organizations which normally receive a substantial part of their support from a governmental unit or from direct or indirect contributions from the general public.

Section 509(a)(2) of the Code provides an exception from classification as a private foundation for organizations which (i) derive more than one-third of their support from a combination of grants, gifts, contributions, membership fees and gross receipts from an activity which is not an unrelated trade or business and (ii) derive not more than one-third of their support from gross investment income and unrelated business taxable income.

Section 509(a)(3) of the Code provides another exception from classification as a private foundation for certain organizations which, in general, are organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of, one or more specified publicly supported organizations.

Section 1.509(a)-4 of the regulations describes in detail the nature of this relationship and the various activities an organization described in section 509(a)(3) can carry on.

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

Section 512(a)(1) of the Code defines the term "unrelated business taxable income" as the gross income derived by an organization from any unrelated trade or business regularly carried on by it, less certain allowable deductions.

Section 513(a) of the Code defines the term "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 functions constituting the basis for its exemption.

Section 1.513-1(d)(2) of the regulations provides that a trade or business is "related" to exempt purposes, in the relevant sense, only if the causal relationship is a substantial one. The regulation continues that for the conduct of trade or business from which a particular amount

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of gross income is derived to be substantially related to purposes for which exemption is granted the production or distribution of the goods or performance of the services from which the gross income is derived must contribute importantly to the accomplishment of these purposes.

Inasmuch as the method of initial funding for B, C, and D has not been established we cannot rule whether any transferred property would be subject to an underlying indebtedness which could give rise to liability under section 511(a) of the Code by reason of section 514. Therefore, we are presuming that the transferred property, if any, will not be subject to an underlying indebtedness. In addition, A, B, C, and D will continue to be operated exclusively for exempt purposes.

Based on the above, we rule as follows:

1. The reorganization and related transactions described in your request will not affect the tax-exempt status of A under section 501(c)(3) of the Code.
2. The reorganization and related transactions described in your request will not affect A's status under section 509(a)(1) and 170(b)(1)(A)(iii) of the Code.
3. The net revenues generated by A, B, C, and D may be directly contributed, or loaned to, or invested in, corporations within the system consistent with the organizational, operational and relationship tests contained in section 1.509(a)-4 et seq. of the regulations.
4. Consummation of the reorganizations and their resultant methods of operation after the reorganization, as described in your request, including all payments for services among the reorganization participants, will not result in the creation of unrelated business taxable income, as defined in section 512(a)(1), to any of the participants in the reorganization.
5. After the reorganization, contributions from the public to A, B, C, and D shall remain deductible to the donor under section 170 of the Code.

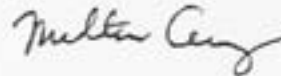
These rulings are based on the understanding that there will be no material changes in the facts upon which they are based and do not reflect or affect any future transactions, including those mentioned in your request for a ruling.

Any changes should be reported to your key District Director. A copy of this ruling is being sent to your key District Director. Because it could resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records.

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This ruling is directed only to the organization that requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton Cerny".

Milton Cerny
Chief, Exempt Organizations
Ruling Branch