

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
CC:PSI:3-PLR-161371-01
Date:
December 21, 2001

LEGEND

X =

Fund 1 =

Fund 2 =

Date 1 =

Date 2 =

Dear

This letter responds to your letter, dated September 6, 2001, requesting rulings concerning the federal tax consequences of combining two existing pooled income funds into one fund. Specifically, you requested rulings on whether the combination of the two funds would adversely affect Fund 1's qualification as a pooled income fund under section 642(c)(5) of the Internal Revenue Code, and whether the transfer of the assets from Fund 1 to Fund 2 would cause any participant in Fund 1 to be treated for tax purposes as other than a participant in an existing pooled income fund.

FACTS

X represents the following facts. X is an organization described in section 170(b)(1)(A)(vi) of the Code. X established and maintains Fund 1 and Fund 2. X established Fund 1 on Date 1, and Fund 2 on Date 2. Fund 1 and Fund 2 each previously received a letter ruling from the Internal Revenue Service stating that each of the funds qualifies as a pooled income fund within the meaning of section 642(c)(5) of the Code. Under the terms of Fund 1's governing instrument, only X is the remainder beneficiary. Under the terms of Fund 2's governing instrument, a donor may designate that the remainder interest be transferred either to X or to one of X's participating local organizations. The letter relating to Fund 2 concludes that Fund 2 satisfies the maintenance requirement of section 642(c)(5)(E).

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In order to save expenses and improve administrative efficiency, X proposes to merge Fund 1 and Fund 2 by transferring Fund 1's assets to Fund 2. Each income beneficiary of Fund 1 will be allocated units of participation in Fund 2, computed by dividing the fair market value of the beneficiary's units in Fund 1 by the fair market value of a unit in Fund 2 immediately before the transfer. After the transfer of assets, Fund 1 will terminate.

Other than the difference noted above, the operating provisions of Fund 1 and Fund 2 are essentially identical.

LAW AND ANALYSIS

A pooled income fund is a trust that meets the requirements of section 642(c)(5) of the Code. Section 642(c)(5)(A) requires that each donor transfer property to a trust, contributing an irrevocable remainder interest in the property to or for the use of an organization described in section 170(b)(1)(A) (other than in clauses (vii) or (viii)), and retaining an income interest for the life of one or more beneficiaries (living at the time of such transfer).

Section 1.642(c)-5(b)(1) provides that, in order to meet the requirements of a pooled income fund, each donor must transfer property to the fund and contribute an irrevocable remainder interest in such property to or for the use of a public charity, retaining for himself, or creating for another beneficiary or beneficiaries, a life income interest in the transferred property. For purposes of this requirement, a contingent remainder interest is not treated as an irrevocable remainder interest.

CONCLUSION

The following conclusions are based on the facts submitted and representations made in connection with this letter ruling request.

Assuming X continues to be irrevocably designated as the remainder beneficiary with respect to all assets transferred from Fund 1 to Fund 2, that Fund 1 otherwise qualifies as a pooled income fund until it is terminated, and that Fund 2 otherwise qualifies as a pooled income fund, we conclude that the merger of Funds 1 and 2 will not adversely affect our prior letter ruling to Fund 1, concluding that Fund 1 is a qualified pooled income fund within the meaning of section 642(c)(5) and that the merger of Fund 1 into Fund 2 will not cause any participant in Fund 1 to be treated for tax purposes as other than a participant in a pooled income fund.

Except as specifically ruled on above, no opinion is expressed concerning the federal tax consequences of the above transaction under any other provision of the Code and, specifically, no opinion is expressed on whether any tax consequences result from the termination of Fund 1.

Under power of attorney on file with this office, we are sending a copy of this letter to X's authorized representative.

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

A copy of this letter should be attached to the federal tax returns filed for the Funds.

Sincerely,
Jeanne M. Sullivan
Senior Technician Reviewer, Branch 3
Office of the Associate Chief Counsel
(Passthroughs and Special Industries)

Enclosures (2)
Copy of this letter
Copy for § 6110 purposes.

cc: