

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

2004 180 47

Date: FEB - 6 2004

Contact Person:

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Employer Identification Number:

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Dear Sir or Madam:

This is in res to a letter from yfour authorized representative requesting a series of rulings on your behalf regarding the tax consequences associated with certain changes regarding a reorganization of a healthcare system.

In a letter dated August 12, 2003, the Internal Revenue Service ruled that a reorganizationdescribed in a request for rulings dated July 7, 2003, would not adversely affect the exempt entities' tax exempt status under section 501(c)(3) of the Internal Revenue Code and would not adversely affect their nonprivate foundation status under section 509(a) of the Code.

You have stated that the following are material changes to your ruling request of July 7,2002:

- (1) g remains a division of D and there will be no change in its ownership or operations as part of the reorganization. The latter's Articles of Incorporation have been amended to remove B as a supported organization.
- (2) Four wholly-owned for-profit subsidiaries of D will merge into Q and cease to exist, instead of three.
- (3) The Bylaws of A have been modified as follows: (1) the purposes of A no

longer reference "supporting" B; (2) an increase in the maximum percentage of members of A's Board of Trustees who may be physicians who are active or retired staff of D from 25% to 40% (to now include in this percentage limitation the President of D's medical staff as an *ex-officio* voting member; (3) four separate committees of the Board of Trustees; (4) the Vice-President of the Board of Trustees does not automatically advance to the Chairperson position and (5) the Secretary is elected by the Board of Trustees and not appointed by the President and Chief Executive Officer.

(4) E will amend its Articles of Incorporation to change its name to F.

A will serve as the parent and controlling organization of the reorganized system and will be the sole member of C, D and E and is exempt from federal income tax under section 501(c)(3) of the Code and is classified as a nonprivate foundation under section 509(a).

B and C operate hospitals. They are exempt from federal income tax under section 501(c)(3) of the Code and are classified as nonprivate foundations under section 509(a).

D is exempt from federal income tax under section 501(c)(3) of the Code and is classified as a nonprivate foundation under section 509(a). It operates hospitals.

E is exempt from federal income tax under section 501(c)(3) of the Code and is classified as a nonprivate foundation under section 509(a). It solicits funds for the benefit of D.

You have requested the following rulings in connection with the modification to the reorganization described above:

1. The modifications to the reorganization will not adversely affect the exempt entities' tax exempt status under section 501(c)(3) of the Code.
2. The modifications to the reorganization will not adversely affect the exempt entities' nonprivate foundation status under section 509(a) of the Code.

Section 501(a) of the Code provides an exemption from federal income tax for organizations described in section 501(c)(3), including organizations that are organized and operated exclusively for charitable, educational or scientific 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.

Revenue Ruling 69-545, 1969-2 C.B. 117, acknowledges that the promotion of health is a charitable purpose within the meaning of section 501(c)(3) of the Code.

The reorganization described herein will not adversely affect the tax exempt status of A, B, C, D or E under section 501(c)(3) of the Code as they will conduct activities that form the basis for their exemption from federal income tax. In addition, the reorganization will not adversely affect the nonprivate foundation status of these entities as the basis for their classification as nonprivate foundations under section 509(a) will not change.

Accordingly, based on all the facts and circumstances described above, we rule:

1. The modifications to the reorganization will not adversely affect the exempt entities' current exempt status under section 501(c)(3) of the Code.
2. The modifications to the reorganization will not adversely affect the exempt entities' nonprivate foundation status under section 509(a) 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.

These rulings are directed only to the organizations that requested them.

These rulings do not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described.

Please keep a copy of these rulings in your permanent records.

Sincerely,

**(signed) Marvin Friedlander**

Marvin Friedlander  
Manager, Exempt Organizations  
Technical Group 1