**Internal Revenue Service**

Department of the Treasury

Washington, DC 20224

199919040

Person to Contact:

Telephone Number:

Refer Reply to: OP:E:EP:T:2

Date: FEB 18 1999

S.I.N.: 414.08

Employee Identification Number:

Legend:

Church A =
Plan X =
Administrator X =
Corporation D =
Corporation E =
Corporation F =
Corporation G =
Corporation H =
Corporation I =
Corporation J =
Corporation K =
Directory P =

Dear:

This letter is in response to a letter dated July 21, 1998, as supplemented by letters dated September 4, 1998, October 27, 1998, and October 30, 1998, submitted by your authorized representative, in which rulings were requested on your behalf with respect to the applicability of section 414(e) of the Internal Revenue Code ("Code") to Plan X. Your authorized representative submitted the following facts and representations:

Corporation D is an organization exempt from tax under section 501(c)(3) of the Code and is listed in Directory P, the official directory of Church A. The goals of Church A include, among others, the promotion of education, human development, and care for the sick and needy. Corporation E is the parent company and the sole shareholder of Corporation D. Corporation E is listed in Directory P and is exempt from tax under section 501(c)(3).

Corporation D is the plan sponsor of Plan X, a plan qualified under section 401(a) of the

Code whose related trust is exempt from tax under section 501(a). Prior to November 30, 1997, Corporation F sponsored Plan X. Pursuant to a resolution by the Board of Directors of Corporation F, Corporation D replaced Corporation F as plan sponsor of Plan X on November 30, 1997.

Plan X is currently administered for the exclusive benefit of approximately 1, 574 participants, all of whom are the active employees of the following entities: Corporation D, Corporation G, Corporation H, Corporation I, Corporation J, and Corporation K. Along with Corporation D, G, H, and I are nonprofit entities. Corporations J and K are for-profit entities. The total number of employees of both for-profit entities who participate in Plan X is 45. The total number of for-profit employees comprises 2.86 percent of the participants in Plan X.

Corporation G's purposes are, among others, to establish, operate and maintain a not-for-profit hospital for the medical treatment and care of the sick and injured. It is exempt from tax under section 501(c)(3) of the Code and is listed in Directory P. Corporation E is the parent company of Corporation G.

The purposes of Corporation H are for charitable, scientific and educational purposes. It is exempt from tax under section 501(c)(3) of the Code. Corporation E is the sole member of Corporation H.

The purposes of Corporation I are, among others, to provide medical services through licensed providers who are members of the medical staff of Corporations D and G, and medical coverage for necessary hospital services. It is exempt from tax under section 501(c)(3) of the Code. Corporation E is the sole member of Corporation H.

The purposes of Corporation J are, among others, to carry out development and property management. Corporation H is the sole shareholder of Corporation J.

The purposes of Corporation K are, among others, to offer clinical and laboratory services to qualified clients. Corporation J is the parent company of Corporation K.

Administrator X manages Plan X. It consists of the finance committee of Corporation E. When the finance committee is acting in its capacity as plan administrator, its principal function is the administration of Plan X. Corporation E controls Administrator X.

Based on the foregoing facts and representations, you request the following rulings:

1. Plan X is and has been a church plan in accordance with the requirements of section 414(e) of the Code since November 30, 1997.

2. The inclusion of Corporations J and K in Plan X will not adversely affect the qualified status of Plan X as a church plan.

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 that is exempt from tax under section 501 of the Code.

Section 414(e) was added to the Code by section 1015 of the Employee Retirement Income Security Act of 1974 (ERISA), Public Law 93-406, 1974-3 C.B. 1, enacted September 2, 1974. Section 1017(e) of ERISA provides that section 414(e) applied as of the date of ERISA's enactment. However, section 414(e) was amended by section 407(b) of the Multiemployer Pension Plan Amendments Act of 1980, Public Law 96-364, to provide that section 414(e) was effective as of January 1, 1974.

Section 414(e)(2) of the Code provides that the term "church plan" does not include a plan (A) which 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 (B) if less than substantially all of the individuals included in the plan are church employees, as described in section 414(e)(1) or 414(e)(3)(B) of the Code.

Section 414(e)(3)(A) of the Code provides that a plan, otherwise qualified, will qualify as a church plan if it is 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 a 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 of the Code, 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 that is exempt from tax under section 501 shall be deemed the employer of any individual included as an employee under section 414(e)(3)(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

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

To have or participate in a qualified church plan, an organization must establish that its employees are either employees or deemed employees of a 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). If an organization's name appears in Directory P, that organization is considered to share common religious bonds and convictions with Church A, and therefore is considered to be associated with Church A for church plan purposes. Its employees are deemed to be employees of Church A.

The information submitted shows that Corporations D and E are listed in Directory P and are therefore considered associated with Church A. Corporation E is the parent of Corporation G, and the sole member of Corporations H and I. Therefore, Corporations G, H, and I are associated with Church A through their control by Corporation E. With the exception of the inclusion of Corporations J and K as adopting employers of Plan X, Plan X is administered for the exclusive benefit of active employees of organizations that share common religious bonds and convictions with Church A and are exempt from tax under section 501 of the Code. Further, Corporation D maintains Plan X. Accordingly, the employees of Corporations D, G, H, and I are considered to be employees of Church A.

Although coverage under Plan X has been extended to eligible employees of Corporations J and K, which are for-profit businesses, it is anticipated that on an ongoing basis, the participation of these employees will not constitute more than an insubstantial portion of the total number of Plan X participants. As stated previously, the employees of Corporations J and K who participate in Plan X constitute 2.86 percent of the participants in Plan X. Thus, Plan X does not constitute 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 for-profit trades or businesses, and substantially all of the individuals included in Plan X are church employees, as described in section 414(e)(1) or section 414(e)(3)(B) of the Code.

Having established that the employees of Corporations D, G, H, and I are "church" employees, the remaining issue is whether Administrator X is and has been an organization controlled by or associated with a church or convention or association of churches, the principal purpose or function of which and has been the administration or funding of a plan within the meaning of section 414(e)(3)(A) of the Code.

Administrator X, who is controlled by Corporation E, administers Plan X. Because the

principal function of Administrator X is the administration of Plan X, Administrator X constitutes an organization, the principal purpose or function of which is the administration or funding of a plan or program for the provision of retirement benefits for employees of Corporations D, G, H, I, J, and K. Therefore, Administrator X qualifies as an organization described in section 414(e)(3)(A) of the Code.

The facts show that Plan X became qualified for church plan status when pursuant to a resolution by the Board of Directors of Corporation F, Corporation D replaced Corporation F as plan sponsor of Plan X on November 30, 1997.

On this basis, we conclude the following:

1. Plan X is and has been a church plan in accordance with the requirements of section 414(e) of the Code since November 30, 1997.

2. The inclusion of Corporations J and K in Plan X will not adversely affect the qualified status of Plan X as a church plan

This letter expresses no opinion as to the qualified status of Plan X 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 Key District Director's office of the Internal Revenue Service.

A copy of this letter has been sent to your authorized representative in accordance with a power of attorney on file in this office.

Sincerely yours,

(signed) JOYCE E. FLOYD

Joyce E. Floyd
Chief, Employee Plans
Technical Branch 2

Enclosures:
Deleted Copy of this Letter
Notice of Intention to Disclose