

Internal Revenue Service

Department of the Treasury

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Person to Contact:

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Date:
May 9, 2000

Legend

Entity =
City =
State =

Dear

This is in response to the private letter ruling request dated December 27, 1999, that you submitted on behalf of Entity. You have supplemented the ruling request with correspondence dated January 31, 2000.

ISSUES

Entity requested the following rulings:

1. Entity is an integral part of City, a political subdivision of State, and its income is therefore not subject to federal income taxation.
2. Charitable contributions to Entity are deductible under § 170(c)(1) of the Internal Revenue Code as contributions to an entity described in § 170(b)(1)(A)(v).
3. As an integral part of a political subdivision of State, Entity is exempt from the filing requirements of § 6033(a)(1) of the Code.

CONCLUSIONS

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1. Entity is an integral part of City, and Entity's income is not subject to federal income tax.
2. Charitable contributions to Entity are deductible under § 170(c)(1) of the Internal Revenue Code as contributions to an entity described in § 170(b)(1)(A)(v).
3. As an integral part of a political subdivision of State, Entity is exempt from the filing requirements of § 6033(a)(1) of the Code.

FACTS

City is (for purposes of state law) a political subdivision of State.

Entity was established by ordinance of the City Council of City. Entity is a State nonprofit corporation. Entity was formed to lessen the burdens of government of City by receiving title, from City, to certain real property adjacent to the main reservoir serving City's residents and by overseeing the development of the property in a manner that protects the water supply of City. City had acquired title to the realty as part of the acquisition of the reservoir.

The City Council of City appoints Entity's directors. Unless City designates otherwise, the appointees are, pursuant to Entity's organizing documents, the following employees of City: the director of utilities; the assistant city manager; the director of financial services; the manager of engineering services; and the director of neighborhood and business development. The City Council may remove any director at any time with or without cause. The following persons serve as officers of entity: director of utilities is president; finance director is vice-president and treasurer; and director of neighborhood and business development is secretary.

The organizing documents of Entity provide that no part of the net earnings of Entity shall inure to the benefit of any director or officer of Entity or any other private individual. Also, any and all property that may be owned by Entity is and shall always be exclusively and irrevocably dedicated to the exempt purposes of Entity.

The initial capitalization of Entity consists of real property transferred to Entity by City. City will be the source of all funds necessary for the conduct by Entity of its activities. Entity's organizational documents provide that upon its dissolution, after its liabilities have been discharged or provided for, its remaining assets shall be transferred to City.

Entity states that it was created by City to (i) serve as City's designee to receive title to the real property, (ii) perform such studies as may be necessary to plan for the development of the property in a manner which protects the water supply of City, (iii) retain consultants to formulate a development plan for the property which is acceptable

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to City, and (iv) oversee the development in a manner which is consistent with protection of City.

It is anticipated that the property will eventually be conveyed to City by Entity unless a determination is made by City that Entity should retain title to the property as lessor under long-term ground leases of the property for development purposes.

LAW AND ANALYSIS

Issues 1 and 3:

Section 1.103-1(b) of the Income Tax Regulations refers to the term “political subdivision” as denoting any division of any state or local government unit that is a municipal corporation or that has been delegated the right to exercise part of the sovereign power of the unit.

Income of an integral part of a state or political subdivision of a state is not taxable absent specific statutory authorization. See Rev. Rul. 87-2, 1987-1 C.B. 18; section 511(a)(2)(B) of the Code; GCM 14407, C.B. XIV-1, 103 (1935), superseded by Rev. Rul. 71-131, 1971-1 C.B. 28. Whether an enterprise is an integral part depends on facts and circumstances such as the state’s degree of control over the enterprise and its financial commitment to the enterprise. If an enterprise is an integral part of a state, it will not be treated as a separate entity for federal tax purposes, though it may have been formed as a separate entity under state law. Section 301.7701-1(a)(3) of the Procedure and Administration Regulations.

City formed Entity for its own purposes. City has made a substantial financial commitment to Entity by transferring significant realty to Entity and assuming responsibility for Entity’s ongoing funding. City retains complete control over Entity because City’s Council may remove Entity’s directors at any time. City retains control over the daily operations of Entity by its power to fund Entity’s operations.

Therefore, Entity is an integral part of City, and Entity’s income is not subject to federal income tax.

The taxpayer has requested a ruling that as an integral part of a political subdivision of the state it is exempt from the filing requirements of § 6033(a)(1) of the Code. Section 6033 does not apply to Entity because § 6033 applies only to organizations recognized as exempt from federal income taxation under § 501(c). Moreover, the return-filing requirements of § 6012 do not apply to states or their political subdivisions.

Issue 2:

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Section 170(a)(1) of the Code provides, subject to certain limitations, a deduction for contributions or gifts to or for the use of organizations described in § 170(c), payment of which is made within the taxable year.

Section 170(c)(1) of the Code states that the term "charitable contribution" includes a contribution or gift to or for the use of a State, a possession of the United States, any political subdivision of a State or any possession of the United States, the United States, or the District of Columbia, but only if the contribution is made for exclusively public purposes. See, e.g., Rev. Rul. 79-323, 1979-2 C.B. 106 (holding that amounts contributed to an industrial commission established by a state legislature for exclusively public purposes are deductible under § 170(c)(1)).

Entity was formed to lessen the burdens of government of City by receiving City's title to the real estate adjacent to the main reservoir serving City's residents and overseeing the development of the property in a manner that protects the water supply of City. This purpose is "an exclusively public purpose" required by § 170(c)(1) for contributions to a State or a political subdivision of a State.

Since we have concluded in our discussion of Issue 1 that Entity is an integral part of City, which is a political subdivision of State, contributions or gifts to or for the use of Entity are contributions or gifts to or for the use of an entity described in § 170(c)(1) of the Code. Accordingly, contributions or gifts to or for the use of Entity are to or for the use of a political subdivision of State and are for exclusively public purposes and are therefore generally deductible under § 170(c)(1) to the extent otherwise provided under § 170.

Section 170(b)(1) of the Code provides limitations on the amount that an individual can deduct for charitable contributions in a taxable year. Section 170(b)(1)(A)(v) provides that any charitable contribution to a "governmental unit" referred to in § 170(c)(1) is allowed to the extent that the aggregate of such contributions does not exceed 50 percent of the taxpayer's contribution base for the taxable year.

Since Entity is an integral part of a political subdivision of State, Entity is a "governmental unit" described in § 170(b)(1)(A)(v) of the Code. Therefore, charitable contributions to Entity are deductible under § 170(c)(1) of the Internal Revenue Code as contributions to an entity described in § 170(b)(1)(A)(v).

No opinion is expressed about the federal income tax treatment of the transaction under other provisions of the Code.

The above rulings are directed only to the taxpayer who requested them. Section 6110(k)(3) of the Code provides that these rulings may not be used or cited as precedent.

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Sincerely,

Acting Assistant Chief Counsel
(Income Tax & Accounting)

By: _____
Karin G. Gross
Senior Technician Reviewer, Branch 3

Enclosure:
Copy for § 6110 purposes