

**Internal Revenue Service**

Department of the Treasury  
Washington, DC 20224

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Date of Communication: Not Applicable

Person To Contact: \_\_\_\_\_, ID No.

Telephone Number: \_\_\_\_\_

Refer Reply To:  
**CC:TEGE:EB:HW**  
**PLR-154556-06**  
Date: May 3, 2007

Legend

Trust =

City =

Dear :

This is in reply to your letter dated October 3, 2006, requesting a ruling on behalf of Trust concerning whether the payment of health insurance premiums by the City are excludable from gross income under section 106 of the Internal Revenue Code (the "Code").

The Trust was established to provide health benefits to its members who are retired safety employees of the City. The Trust is exempt from federal income tax under section 501(c)(9) of the Code as a voluntary employees beneficiary association (VEBA).

The Trust pays the health care premiums of retired employees upon retirement through the date the member turns 65 years old. This is the only benefit provided by the Trust. Upon the death of a retiree, the surviving spouse and dependents may continue receiving the benefit. Currently, the benefit is funded entirely by participant contributions made on an after-tax basis.

The City proposes to make contributions to the Plan on behalf active employees. The City will annually contribute to the Trust amounts not to exceed what is necessary

to fund the benefit. An employee may not elect to receive cash in lieu of the City's contribution.

Section 501(c)(9) of the Code provides exemption from federal income tax for VEBAs providing for the payment of life, sick, accident or other benefits to the members of such association or their dependents or beneficiaries, if no part of the net earnings of such association inures to the benefit of any private shareholder or individual.

Section 106(a) of the Code provides that gross income of an employee does not include employer-provided coverage under an accident or health plan.

Section 1.106(a)-1 of the Income Tax Regulations states that gross income of an employee does not include contributions which his employer makes to an accident or health plan either by paying the premium (or a portion of the premium) on a policy covering one or more employees or by contributing to a separate trust or fund which provides accident and health benefits directly or through insurance to one or more employees. If such trust provides other benefits in addition to accident and health benefits, section 106 applies only to the portion of the employer's contribution which is allocable to accident or health benefits.

Based on the information submitted and authorities cited, we conclude that the payment of health insurance premiums by the City to the Trust will be excludable from gross income under section 106 of the Code.

No opinion is expressed as to the federal tax consequences of the transaction under any other section of the Code other than as specifically stated above.

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

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to the Taxpayer.

Sincerely,

Harry Beker, Chief  
Health & Welfare Branch  
Office of Division Counsel/Associate Chief  
Counsel  
(Tax Exempt & Government Entities)