

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



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Release number: 200824024  
Release Date: 6/13/08  
Date: March 20, 2008

Contact Person:

Identification Number:

Telephone Number:

XXXXXX  
XXXXXX  
XXXXXX  
XXXXXX

Employer Identification Number: XXXXXX

Uniform Issue List:

501.15-00

Legend:

<u>A</u>	=	XXXXXX
<u>B</u>	=	XXXXXX
<u>C</u>	=	XXXXXX
<u>D</u>	=	XXXXXX
<u>o</u>	=	XXXXXX
<u>p</u>	=	XXXXXX
<u>q</u>	=	XXXXXX
<u>r</u>	=	XXXXXX
<u>s</u>	=	XXXXXX
<u>t</u>	=	XXXXXX
<u>u</u>	=	XXXXXX
<u>v</u>	=	XXXXXX
<u>w</u>	=	XXXXXX
<u>x</u>	=	XXXXXX

Dear

This is in response to your request for a ruling that you are not required to file as an insurance company exempt from income tax under Section 501(c)(15) of the Internal Revenue Code ("the Code") for o and subsequent years.

You are a calendar year taxpayer incorporated on p and domiciled in D. From that date until the year ending on December 31, q, you have been filing as a taxable insurance company

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other than a life insurance company pursuant to Section 831(a) of the Code.

You are a wholly owned subsidiary and were included in the consolidated U.S. Corporation Income Tax return of A for taxable years through g.

Prior to your insolvency and liquidation proceedings, you were admitted to sell insurance in 49 states and the District of Columbia. You provided worker's compensation, general liability, commercial vehicle, multiple peril, and other commercial insurance coverage.

On r, B issued an Order Appointing Rehabilitator which placed you in rehabilitation pursuant to C. After the Rehabilitation Order, you were found to be insolvent and a Final Order of Liquidation and Appointment of the Superintendent of Insurance for the State of D as Liquidator was entered on s.

You have not issued insurance contracts and have only administered claims during the period subsequent to the liquidation order and appointment of a liquidator. You reported no net written premium income in t and u net written premium income in g. The consolidated federal income tax return for the taxable year o has not yet been filed with the Internal Revenue Service (the "Service").

You have never filed an Application for Recognition of Exemption with the Service seeking recognition as an insurance company exempt from income tax pursuant to Section 501(c)(15) of the Code. You have never filed a Return of an Organization Exempt from Income tax with the Service claiming to qualify as an insurance company exempt from income tax pursuant to Section 501(c)(15) of the Code.

You have requested the following ruling:

That you are not required to file as an organization exempt from federal income tax as an insurance company other than a life insurance company as described in Section 501(c)(15) of the Code for that taxable year o and for subsequent taxable years.

LAW

Section 501(a) of the Code states, in part, that any organization described in Section 501(c) of the Code shall be exempt from taxation unless such exemption is denied under either Section 502 or Section 503 of the Code.

Section 501(c)(15) of the Code, as amended by the Tax reform Act of 1986, exempts from income tax insurance companies or associations, other than life, if the net written premiums (or, if greater, direct written premiums) for the taxable year do not exceed \$ 350,000.

Section 501(c)(15) of the Code, in its current form, exempts from income tax only insurance companies (as defined in IRC 816(a)), other than life insurance companies, whose gross receipts for the taxable year do not exceed \$600,000 and consist of more than 50 percent premium income.

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A transition rule made the current version of section 501(c)(15) of the Code applicable beginning after the earlier of the date that a liquidation, receivership, or similar proceeding ends or December 31, 2007 if, for the taxable year that includes April 1, 2004, an insurance company or association, other than life, meets the requirements of section 501(c)(15)(a) of the Code, as in effect for the last taxable year beginning before January 1, 2004, and is in a receivership, liquidation, or similar proceeding under the supervision of a State court on April 1, 2004.

Section 1.501(a)-1(a)(2) of the Internal Revenue Regulations (the "Regulations") provides, in pertinent part, that, generally, an organization is not exempt from income tax merely because it is described in Section 501(c) of the Code. It states that most organizations claiming exemption must file an application form with the appropriate Service official.

Section 6033(a) of the Code requires that all organizations exempt from income tax by Section 501(a) of the Code must file an annual return unless excepted from filing by Section 6033(a)(3) of the Code.

#### ANALYSIS

You were in receivership, liquidation, or similar proceeding under the supervision of a State court on April 1, 2004. For the taxable years t and g, your net written premium income did not exceed \$350,000. Thus, the transition rule of The Pension Funding Equity Act of 2004 would operate such that you were described in Section 501(c)(15) of the Code for those years and, as such, exempt under Section 501(a) of the Code. In addition, though you have not yet reported your income for the taxable years o, v, w, and x, you could potentially fall within the description in Section 501(c)(15) as augmented by the transition rule for those years if your net written premium income does not exceed \$350,000. You could also fall within the description in Section 501(c)(15) for taxable years after December 31, 2007 if you satisfy the requirements of that section as amended by the Pension Funding Equity Act of 2004 without the benefit of the transition rule.

Section 501(a) of the Code operates to make organizations described in Section 501(c)(15) of the Code exempt from taxation as long as those organizations are not denied exemption under Section 502 or Section 503 of the Code. Therefore, you would qualify to be exempt from federal income tax for the taxable years t and g as well as potentially qualify to be exempt for subsequent taxable years.

Exemption from paying federal income tax is not required and there is no requirement that you must be an exempt organization. Specifically, Section 6033(a) of the Code requires organizations described in Section 501(c)(15) to file annual information returns with the Service and states that the penalty for non-filing for three consecutive years is the loss of exemption from federal income tax. Section 6033(j) of the Code allows reinstatement of exempt status only after an organization files an application for exemption with the Service.

You have never filed an Application for Recognition of Exemption with the Service seeking recognition as an insurance company exempt from income tax pursuant to Section 501(c)(15) of the Code. You have never filed a Return of an Organization Exempt from Income tax with the Service claiming to qualify as an insurance company exempt from income tax

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pursuant to Section 501(c)(15) of the Code. Therefore, the Service does not recognize you as an organization exempt from taxation under 501(a) of the Code.

In view of the foregoing, we rule as follows:

You are not required to file as an insurance company exempt from federal income tax under Section 501(c)(15) of the Code.

This ruling is based on the understanding that there will be no material changes in the facts upon which it is based.

We express no opinion as to the tax consequences of the proposed transaction under any other section of the Code.

Pursuant to a Power of Attorney on file in this office, a copy of this letter is being sent to your authorized representatives. A copy of this letter should be kept in your permanent records.

This ruling 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 by others as precedent.

If there are any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Robert C. Harper, Jr.  
Manager, Exempt Organizations  
Technical Group 3

Enclosure  
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