



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

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

Release Number: **201409013**  
Release Date: 2/28/2014  
Date: December 5, 2013  
UIL Code: 501.04-00

Contact Person:  
Identification Number:  
Contact Number:  
Employer Identification Number:  
Form Required To Be Filed:  
Tax Years:

Dear :

This is our final determination that you do not qualify for exemption from Federal income tax under Internal Revenue Code section 501(a) as an organization described in Code section 501(c)(4).

We made this determination for the following reason(s):

You do not meet the requirements of a social welfare organization as defined under section 1.501(c)(4)-1(a)(2) of the Income Tax Regulations. You have not established that you are primarily engaged in promoting the common good and general welfare of the people of the community.

You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file. File the returns in accordance with their instructions, and do not send them to this office. Failure to file the returns timely may result in a penalty.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at 1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Karen Schiller  
Acting Director, Exempt Organizations  
Rulings and Agreements

Enclosure  
Notice 437  
Redacted Proposed Adverse Determination Letter  
Redacted Final Adverse Determination Letter



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

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

Date: September 5, 2013

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

UIL Code 501.04-00

Legend:

Year =

State =

Faith =

\$x1 =

\$x2 =

\$x3 =

\$x4 =

\$x5 =

Dear \_\_\_\_\_ :

We have considered your application for recognition of exemption from Federal income tax under Internal Revenue Code § 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under Code § 501(c)(4). The basis for our conclusion is set forth below.

FACTS

You are an unincorporated association formed in Year in State. You are a membership organization consisting exclusively of members of Faith. You provide a plan to help your members with their medical expenses due to health, accident, or misfortune. You originally applied for a determination of exemption under § 501(c)(15), but later requested exemption under § 501(c)(4) instead.

Your quarterly membership fee is \$x1 per adult and \$x2 per child. Members make claims for medical costs by submitting their medical bills to you for reimbursement each quarter. For each claim, the member pays the first \$x3. After the \$x3 deductible is paid, you pay 80% of the claim up to \$x4. Costs over that amount are covered at 100%. For chronic illness, members pay only one \$x5 deductible per year, in addition to the regular quarterly membership fee, and you pay the remainder of their covered medical expenses.

The medical expenses you cover include all major medical costs while a member is hospitalized and any related costs for before or after the hospital stay, claims from accident or injury

involving off road vehicles and maternity expenses. You do not cover pre-existing conditions, items covered by any other aid, procedures inconsistent with Faith, and various other items listed in your bylaws. Your bylaws state that there is no liability coverage, that each member forfeits any legal action, and that those members not abiding by the rules may be canceled at any time, though these terms are not explained.

Members of Faith are not required to join you, but only members of Faith may be your members. You indicate that a board of directors is elected annually to administer the plan. No salaries are paid to any officers or directors and all administration of the plan is conducted by volunteers. You are supported completely by fees paid by members, along with some interest income earned on the accumulated funds. You indicate that your assets will be distributed proportionately among the members on dissolution. Your quarterly membership fees cover your costs, and you maintain a large cash balance for future claims. You also have advanced approval for a line of credit loan, if needed, to cover medical claims.

#### LAW

I.R.C. § 501(a) provides that an organization described in subsection (c) is exempt from income taxation.

I.R.C § 501(c)(4) describes civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or certain local associations of employees, the net earnings of which do not inure to the benefit of any private shareholder or individual.

I.R.C. § 501(c)(15) describes insurance companies, other than life, if the gross receipts do not exceed \$600,000 and more than 50 percent of the gross receipts consist of premiums, or in the case of a mutual insurance company, if the gross receipts do not exceed \$150,000 and more than 35 percent of the gross receipts consist of premiums.

Treas. Reg. § 1.501(c)(4)-1(a)(2) provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

Rev. Rul. 54-394, 1954-2 C.B. 131, describes an organization whose sole activity was to provide television reception for its members on a cooperative basis in an area not readily adaptable to ordinary reception. Members were required to contract for and to pay services and installation fees. This organization did not qualify for exemption under § 501(c)(4) because it operated for the benefit of its members, rather than for the promotion of social welfare.

Rev. Rul. 55-495, 1955-2 C.B. 259, involved an association providing life, sick, accident, and other benefits to its members or their dependents, where membership was restricted to individuals who subscribed to a designated religious creed, were of good character and health, and had the ability to earn a livelihood. The organization was not entitled to exemption under § 501(c)(8), but it was held to be exempt under § 501(c)(4).

Rev. Rul. 62-167, 1962-2 C.B. 142, holds that an organization whose purpose was to construct and maintain a television station so that satisfactory television would be available to the

community in general qualified for exemption under § 501(c)(4). Membership was available to all persons in the area and the organization's income was derived from membership fees and donations. The organization transmitted television signals for the benefit of the entire community, and it obtained memberships and contributions on a voluntary basis.

Rev. Rul. 75-199, 1975-1 C.B. 160, provides that a nonprofit organization that restricts its membership to individuals of good moral character and health, who belong to a particular ethnic group residing in a stated geographical area, and that provides benefits to members and to beneficiaries of deceased members does not qualify for exemption under § 501(c)(4) because the benefit to the community at large is minor and incidental. Rev. Rul. 75-199 modified Rev. Rul. 54-394 by removing the conclusion that the organization in that revenue ruling was exempt under § 501(c)(4).

Rev. Rul. 81-58; 1981-1 C.B. 331, amplifying Rev. Rul. 75-199, holds that a nonprofit police officer association whose primary activity is providing retirement benefits to its members and death benefits to the beneficiaries of members does not qualify as a social welfare organization.

In New York State Association of Real Estate Boards Group Insurance Fund v. Commissioner, 54 T.C. 1325 (1970), an association organized by a small group interested in obtaining group insurance did not qualify for exemption because it offered its benefits to only a limited class of its members and their employees. The court noted, "there is not in such an organization the requisite civic concern to constitute social welfare" required for qualification under § 501(c)(4). Where the primary benefit from an organization is limited to that organization's members, and not provided to the community as a whole, the organization is not operated primarily for social welfare.

In Bethel Conservative Mennonite Church v. Commissioner, 746 F.2d 388 (7th Cir. 1984), nonacq. AOD CC-1986-004, the court held that a church's medical aid plan, funded by contributions and available to all members of the congregation in good standing and their dependents, furthered religious purposes and was exempt under § 501(c)(3).

In Mutual Aid Association of Church of the Brethren v. U.S., 759 F.2d 792 (10th Cir. 1985), the court held that an organization providing property and casualty insurance for church members on the basis of assessed premiums is not primarily engaged in the promotion of the social welfare for exemption under § 501(c)(4). The court concluded that the presence of a substantial non-exempt purpose, namely providing insurance for its members in return for premiums, precluded the organization's exempt status as an organization advancing religion or primarily engaged in the promotion of social welfare.

## ANALYSIS

You have applied for exemption from taxation under Internal Revenue Code § 501(a) as an organization described in § 501(c)(4). You originally applied for exemption under § 501(c)(15). To qualify for tax exempt status under IRC 501(c)(15), an organization must be operating as an insurance company. You indicate that you are not an insurance company, therefore § 501(c)(15) does not apply.

Organizations described in § 501(c)(4) include those not organized for profit but operated exclusively for the promotion of social welfare. Section 1.501(c)(4)-1(a)(2)(i) of the regulations

provides that an organization will promote social welfare if it is primarily engaged in promoting the common good and general welfare of the people of the community. An organization is embraced within this provision if it is operated primarily for the purpose of bringing about civic betterments and social improvements.

Your operations are similar to those of the organizations described in several revenue rulings and judicial decisions that deny recognition of exemption under § 501(c)(4) because they benefit a limited group of private individuals. You are similar to the organization described in Rev. Rul. 54-394, *supra*, and the association described in Rev. Rul. 81-58, *supra*, by providing benefits on a cooperative basis for the benefit of members, rather than the promotion of community welfare. You are also similar to the organization described in Rev. Rul. 55-495, *supra*, that provided life, sick, accident, or other benefits to members or their dependents. Rev. Rul. 75-199, *supra*, holds that such an organization is not exempt under § 501(c)(4). You are not like the organization described in Rev. Rul. 62-167, *supra*, because membership is not open all persons in the community and you only provide benefits to your members. Your primary economic benefit is limited to your members, including upon dissolution, and not to the community as a whole, and so you are not operated for social welfare. New York State Association, 54 T.C. at 1333.

You have not otherwise established that you promote social welfare. You provide assistance with medical expenses only for the members of Faith, and not all the members of Faith, but only those who have paid your membership fees. You have not provided any evidence that you provide more than incidental benefit to a larger community. You are distinguishable from the organization in Bethel Conservative Mennonite Church, 746 F.2d 388, because you do not provide assistance to all members of a congregation, regardless of payment of fees, are not funded by voluntary contributions and do not otherwise operate as a church congregation. You are similar to the organization in Mutual Aid Association, 759 F.2d 792. Your primary activity is reimbursing the medical expense claims of your members in exchange for their regular payment of fees, which precludes exempt status as promoting social welfare. *Id.* at 795.

## CONCLUSION

You have not established that you are promoting the common good and general welfare. You have not established that the community as a whole may derive any benefit from your program that is more than incidental. You have not established that you operate primarily for the purpose of bringing about the civic betterments and social improvements. Instead, you provide a direct economic benefit to your members and only your members benefit from your services. Because you do not meet the requirements for a social welfare organization as defined under § 1.501(c)(4)-1(a)(2), you do not qualify for recognition of exemption under § 501(a) as an organization described in § 501(c)(4).

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter. We will consider your statement and decide if the information affects our determination.

Your protest statement should be accompanied by the following declaration:

*Under penalties of perjury, I declare that I have examined this protest statement, including accompanying documents, and, to the best of my knowledge and belief, the statement contains all the relevant facts, and such facts are true, correct, and complete.*

You also have a right to request a conference to discuss your protest. This request should be made when you file your protest statement. An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you. If you want representation during the conference procedures, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at [www.irs.gov](http://www.irs.gov), Forms and Publications.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to this address:

Internal Revenue Service  
TE/GE (SE:T:EO:RA:T:4)

1111 Constitution Ave, N.W.  
Washington, DC 20224

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

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

Sincerely,

Karen Schiller  
Acting Director, Exempt Organizations  
Rulings and Agreements