

Internal Revenue Service

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Person To Contact:

Telephone Number:

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Date: March 11, 2016

LEGEND

Taxpayer =

State =

HRA Plan =

Health Plan =

System =

Trust B =

Date X =

Month Y =

Dear :

This responds to your letter of September 25, 2015, and subsequent correspondence, requesting a ruling regarding the tax consequences of an amendment to Taxpayer's trust agreement to terminate and transfer its assets to Trust B. Taxpayer requests a ruling that the amendment will not cause Taxpayer to fail to meet the requirements of

section 501(c)(9) of the Internal Revenue Code (Code) prior to the date of the amendment.

FACTS

Taxpayer is a trust that received a letter from the Internal Revenue Service, dated Date X, stating that it is exempt from Federal income tax as a voluntary employees' beneficiary association (VEBA) under section 501(c)(9) of the Code. System is an instrumentality of State that was established to provide retirement benefits for State's public employees. System currently operates three retirement plans for public employees: a defined benefit plan (Plan A), a defined benefit plan which elements of a defined contribution plan (Plan B), and a defined contribution plan (Plan C). System provides retiree health benefits to eligible retirees in Plan A and Plan B through section 401(h) accounts, and beginning in Month Y, through Trust B, which you represent is a section 115 trust, the income of which is excludable from gross income under section 115(1) of the Code. System also provides retiree health benefits under Health Plan and through Taxpayer to eligible retirees in Plan C.

System is terminating its current health plans for retirees in Plan A and Plan B and creating a new health reimbursement arrangement (HRA Plan). Taxpayer is terminating and transferring its assets to Trust B. Following the transfer, Health Plan will be funded solely through Trust B. Taxpayer represents that prior to Taxpayer's trust agreement amendment and Taxpayer's termination, Taxpayer's assets will be solely used to provide permissible VEBA benefits.

RULING REQUESTED

The amendment of Taxpayer's trust agreement to terminate Taxpayer and transfer its assets to Trust B will not cause Taxpayer to fail to meet the requirements of section 501(c)(9) prior to the date of the amendment.

LAW

Section 501(a) of the Code provides an exemption from federal income tax for a voluntary employees' beneficiary association providing for the payment of life, sick, accident or other benefits to its members or their dependents or designated beneficiaries, if no part of net earnings of such association inures (other than through such payments) to the benefit of any private shareholder or individual.

Section 1.501(c)(9)-3(a) of the Income Tax Regulations provides that the life, sick, accident, or other benefits provided by a voluntary employees' beneficiary association must be payable to its members, their dependents, or their designated beneficiaries.

Life, sick, accident, or other benefits may take the form of cash or noncash benefits. A voluntary employees' beneficiary association is not operated for the purpose of

providing life, sick, accident, or other benefits unless substantially all of its operations are in furtherance of the provision of such benefits. Further, an organization is not described in this section if it systematically and knowingly provides benefits (of more than a de minimis amount) that are not permitted by paragraphs (b), (c), (d), or (e) of this section.

Section 1.501(c)(9)-3(c) provides, in pertinent part, that the term "sick and accident benefits" means amounts furnished to or on behalf of a member or a member's dependents in the event of illness or personal injury to a member or dependent. Such benefits may be provided through reimbursement to a member or a member's dependents for amounts expended because of illness or personal injury, or through the payment of premiums to a medical benefit or health insurance program.

Section 1.501(c)(9)-4(a) provides, in pertinent part, that no part of the net earnings of an employees' association may inure to the benefit of any private shareholder or individual other than through the payment of benefits permitted by section 1.501(c)(9)-3. Whether prohibited inurement has occurred is a question to be determined with regard to all of the facts and circumstances, taking into account the guidelines set forth in the regulations.

ANALYSIS AND CONCLUSION

Prior to the amendment of Taxpayer's trust agreement to terminate Taxpayer and transfer its assets to Trust B, no net earnings will inure to the benefit of any private shareholder or individual other than through the payment of permitted VEBA benefits. Accordingly, the proposed amendment does not cause Taxpayer to fail to meet the requirements of section 501(c)(9) of the Code prior to the date of the amendment.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Specifically, it does not address the tax consequences of the described transactions to System, the retirement plans operated by System, or Trust B. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed

by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,

Janet A. Laufer
Senior Technician Reviewer
Health & Welfare Branch
Office of Associate Chief Counsel
(Tax Exempt & Government Entities)