

**Internal Revenue Service**

Department of the Treasury  
Washington, DC 20224

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Date of Communication: Not Applicable

Person To Contact:

Telephone Number:

Refer Reply To:  
CC:TEGE:EB:HW  
PLR-124480-17

Date:  
January 19, 2018

Legend:

Taxpayer =

Plan =

State X =

Date X =

Date Y =

\$X =

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

This responds to your letter, dated \_\_\_\_\_, requesting a ruling that the proposed transaction described below will not result in prohibited inurement under section 501(c)(9) of the Internal Revenue Code ("Code").

**FACTS**

Taxpayer received a determination letter, dated Date X, stating that it is a voluntary employees' beneficiary association under section 501(c)(9) of the Code, effective Date Y. Taxpayer is an association that provides medical benefits to employees of its participating members. Taxpayer sponsors Plan. Taxpayer represents that it is also a

multiple employer welfare arrangement (“MEWA”) under the Employee Retirement Income Security Act of 1974 and must comply with State X Non-Profit MEWA Act.

Taxpayer represents that it is required under the laws of State X to maintain a fund balance of \$X at all times. Taxpayer further represents that, in its first year of operation, premiums it collected from its members were insufficient to maintain the required fund balance, and, as required under the laws of State X, it assessed additional contributions from its members. Taxpayer represents that a substantial portion of the additional contributions was memorialized by interest-free promissory notes, with Taxpayer as issuer and the members as payees.

Taxpayer is now adequately funded. For members that were assessed additional contributions, as described in the preceding paragraph, Taxpayer proposes to extinguish the promissory notes over a five-year period by applying the amount of the notes to the contributions that the members otherwise would be required to pay to Taxpayer. Taxpayer represents that members will not receive any funds from Taxpayer, and that there will be no disproportionate benefits to officers, shareholders, or other highly paid employees of members.

### **RULING REQUESTED**

Taxpayer has requested a ruling that the proposed transaction, extinguishing the promissory notes over a five-year period by applying the amount of the notes to the contributions that the members otherwise would be required to pay to Taxpayer, will not result in prohibited inurement under section 501(c)(9).

### **LAW**

Section 501(c)(9) provides for the exemption from federal income tax of voluntary employees' beneficiary associations providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents or designated beneficiaries if no part of the net earnings of such association inures (other than through such payments) to the benefit of any private shareholder or individual.

Treas. Reg. § 1.501(c)(9)-1 provides that for an organization to be described in section 501(c)(9) of the Code, it must be an employees' association; membership in the association must be voluntary; the organization must provide for the payment of life, sick, accident, or other benefits to its members; and there can be no inurement (other than by payment of permitted benefits) to the benefit of any private shareholder or individual.

Treas. Reg. § 1.501(c)(9)-3(a) 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.

Treas. Reg. § 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. Sick and accident benefits may be provided directly by an association to or on behalf of members and their dependents, or may be provided indirectly by an association through the payment of premiums or fees to an insurance company, medical clinic, or other program under which members and their dependents are entitled to medical services or to other sick and accident benefits.

Treas. Reg. § 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 Treas. Reg. § 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**

Based on the information submitted by Taxpayer, we conclude that the proposed transaction, extinguishing the promissory notes over a five-year period by applying the amount of the notes to the contributions that the members otherwise would be required to pay to Taxpayer, will not result in prohibited inurement to a private shareholder or individual other than through the payment of permissible benefits as described in Treas. Reg. § 1.501(c)(9)-3. Accordingly, the proposed transaction will not result in prohibited inurement under section 501(c)(9) of the Code.

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. Specifically, this ruling does not address tax consequences of the described transaction to any member who made contributions to Taxpayer.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) 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 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,

Kevin Knopf  
Senior Technician Reviewer  
Health & Welfare Branch  
Office of Associate Chief Counsel  
(Tax Exempt & Government Entities)