

No PROTEST RECEIVED

12/28/94

NOV 22 1993

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Based on the information submitted, we have concluded that you do not qualify for exemption under that section.

The information submitted indicates that you were incorporated under the laws of [REDACTED] on [REDACTED] to be effective [REDACTED]. You were established to administer and oversee a comprehensive pediatric primary care program for qualifying children in [REDACTED]. You have entered into a contract with [REDACTED] to manage and coordinate a comprehensive pediatric primary care project as part of [REDACTED] Plan, [REDACTED] enters into agreements with non-profit groups or with pediatricians or pediatric practice groups to provide primary care services to qualifying children, primarily those participating in the [REDACTED] program.

You enroll children in the program and schedule them with participating physicians. You bill [REDACTED] and third party payers, such as Medicaid or private insurance, and pay participating physicians for their services from collection of third party and [REDACTED] billings. You have entered into contracts with a number of physicians to provide primary care services for the enrolled children.

You are a membership organization. Membership is based upon an invitation to membership by unanimous vote of the Board of Directors. Any member may be divested of membership with or without cause by a majority vote of the Board of Directors. Members must meet the qualifications of participating physicians, but participating physicians do not need to be members. Currently, you have [REDACTED] members, including the [REDACTED] regular members of your Board of Directors.

You are managed by your Board of Directors. The [REDACTED] regular directors are elected by your members. In addition, the Nurse Director [REDACTED] is an ex officio member of

[REDACTED]

the Board of Directors. While she has a voice and vote at every Board meeting that she attends, she is not counted for quorum purposes if she does not attend and her consent is not required for any vote otherwise required to be mandatory.

[REDACTED] is your founder, President, Treasurer, and Medical Director, as well as a member of your Board of Directors. [REDACTED] will continue to operate his private practice separately from you. He is also the current District Medical Director for [REDACTED]. [REDACTED] will be paid a salary of \$ [REDACTED] per year for his services as Medical Director. He will devote approximately one day per week, or 20% of his time, to you. [REDACTED] has also contracted with you as one of the physicians providing pediatric care. In addition, [REDACTED], is your Secretary and a member of your Board of Directors. He is also the Assistant District Medical Director for [REDACTED]. You have entered into a contract with [REDACTED] as one of the participating physicians. You have also entered into participating physician contracts with your third director and your other member, as well as with physicians who are neither directors nor members.

You expect that your primary source of revenue will be the payments from the contract with [REDACTED]. You will also receive revenue from billing third party payers.

Section 501(c)(3) of the Code provides, in part, for the exemption from federal income tax for corporations organized and operated exclusively for charitable, scientific or educational purposes, provided no part of the corporation's net earnings inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations provides that in order to be exempt as an organization described in section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will be regarded as operated exclusively for one or more exempt purposes only if it engages primarily in activities which accomplish one or more exempt purposes, but will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. The organization must establish that it is not organized or operated for the benefit of private interests, such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Section 1.501(c)(3)-1(d)(2) of the regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense. The promotion of health has long been recognized as a charitable purpose. See Restatement (Second) of Trusts, sections 368, 372; IV Scott on Trusts, section 368, 372 (3rd Ed. 1967); and Revenue Ruling 69-545, 1969-2 C.B. 117.

You are organized and operated primarily for the benefit of the member and participating physicians, rather than for a public purpose. Your primary activity is providing administrative services on behalf of the participating physicians. [REDACTED] may contract directly with the physicians or through you to provide the primary care services for qualifying children. By providing the billing and collection services for the participating physicians, you reduce their administrative burden in connection with their services for [REDACTED]. In addition, you benefit the participating physicians by billing and collecting from third party payers, such as Medicaid and private insurance, and remitting the payments to the physicians. Therefore, you are serving the private interests of the participating physicians, rather than the public interest.

Accordingly, you do not qualify for exemption from federal income tax under section 501(a) of the Code as an organization described in section 501(c)(3). Contributions to you are not deductible under section 170 of the Code. You must file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

[REDACTED]

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgement or decree under this section shall not be issued in any proceeding unless the United States Tax Court, the United States Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your Key District Director in Atlanta, Georgia. Thereafter, any questions about your federal income tax status should be addressed to that office. The appropriate State Officials will be notified of this action in accordance with section 6104(c) of the Code.

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

Attn: [REDACTED]
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

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

Sincerely,

[REDACTED]
[REDACTED]
Chief, Exempt Organizations
Rulings Branch 4

[Redacted]

cc: [Redacted]

cc: [Redacted]
Attn: EO Group

cc: State Officials of [Redacted]

[Redacted]

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Code	[Redacted]							
Surname	[Redacted]							
Date	2/18/80	4/24/80						