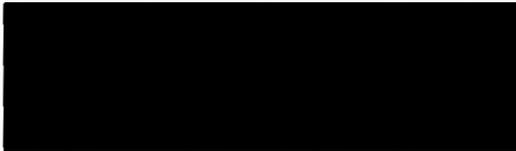


Internal Revenue Service

Department of the Treasury

District Director
Delaware-Maryland District

31 Hopkins Plaza, Baltimore, MD 21201



Person To Contact:



Telephone Number:



Refer Reply To:



JUL 3 1997

Certified Mail

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code and have determined that you do not qualify for the exemption under this section. Our reasons for this conclusion and the facts which this is based on are explained below.

You were incorporated under the laws of the State of [redacted] on [redacted]. Your stated purposes are: "renting, leasing, providing or purchasing goods or services; negotiating group discounts; purchasing and participating in all types of insurance plans including, but not limited to, life insurance, health insurance and worker's compensation insurance."

Your organization was formed by a group of industrial and manufacturing type employers in the [redacted] area, all of whom were self insured for group medical insurance and workers compensation. By bonding together and pooling the total of all of their employees, the applicant has been successful in obtaining, discounted medical service fee schedules from four area hospitals and several physician groups, totaling over [redacted] physicians for discounted medical services.

You have a contractual agreement with [redacted] which provides it highest and best levels of medical provider discounts to the employees of those employers who are members of [redacted].

Your sole source of support is the \$ [redacted] per year membership fees paid by the employers. Currently you have [redacted] members.

Your expenses are allocated to legal expenses, advertising insurance, office supplies and seminars.

You are a membership organization. Membership is open to any association, Corporation, Partnership or other business entity:

[REDACTED]

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(1) Who has paid the requisite fees and dues necessary to become an active member in good standing;

(2) Whose membership application has been approved by a majority of the Board of Directors.

Section 501(c)(6) of the Internal Revenue Code provides for exemption for business leagues, chambers of Commerce, real estate boards, boards of trade, and professional football leagues, which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Revenue Ruling 59-391, published in Cumulative Bulletin 1959-2, on page 151, held that an organization composed of individuals, firms, associations and corporations, each representing a different trade, business, occupation or profession whose purpose is to exchange information on business prospects has no common business interest other than a mutual desire to increase their individual sales. The activities are not directed to the improvement of one or more lines of business, but rather to the promotion of the private interests of its members.

Revenue Ruling 74-81, published in Cumulative Bulletin 1974-1 on page 135 held that an organization whose principal activity is to provide its members with group workmen's compensation insurance coverage is performing particular services for individual persons and does not qualify for exemption under code section 501(c)(6).

Your organization is similar to the organizations described in Revenue Rulings 59-391 and 74-81. Your organization is open to any business entity located in [REDACTED] who is able to pay the membership fees and has a need to provide group health and worker's compensation benefits. You are not a business league. You do not promote any common business interest beyond the provision of health and worker's compensation insurance at a lower cost for your members. Your activities constitute the provision of particular services for individuals.


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Therefore, we have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the code.

In accordance with this determination, you are required to file Federal income tax returns on Form 1120.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this, you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax information authorization with us.

If you do not appeal this determination within 30 days from the date of this letter, as explained in Publication 892, this letter will become our final determination in this matter. Further, if you do not appeal this determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust administrative remedies. Section 7428 (b) (2) of the Code provides, in part, that "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted all administrative remedies available to it with the Internal Revenue Service."

Sincerely yours,


District Director

Enclosure: Publication 892