



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

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

No Third Party Contacts

Number: **200752042**  
Release Date: 12/28/2007

Date: October 1, 2007

U.I.L. 501.04-00; 512.01-00

236981

Contact Person:

Identification Number:

Telephone Number:

Employer Identification Number:

Legend:

X =

Y =

Z =

State =

Dear :

This is in response to your ruling request dated November 18, 2005, and supplemented by your letters dated June 28, 2007 and July 5, 2007, concerning the effect of certain transactions under sections 501(c)(4) and 511 through 513 of the Internal Revenue Code (the Code).

X is a social welfare organization which is exempt under section 501(c)(4) of the Code. X's members are municipal corporations in State.

Y is an insurance pool whose income is exempt under section 115 of the Code. Y provides life, accident, health and other supplemental insurance to employees of its members that include local and municipal governments. X helped created Y as an insurance pool so X's members could obtain insurance benefits for its employees on a cost-effective basis.

Z was formed as a limited liability company and is a disregarded entity of X. Z operates as a licensed insurance agency selling supplemental life, accident, dental and health insurance policies underwritten by various unrelated insurance companies. Z's sale of insurance products is limited to employees of municipalities in State.

X performs administrative services for Z that include a support staff, claims management monitoring, financial information and management information services, and an employee who will serve as a licensed insurance producer. X receives a fee from Z for its administrative

services.

Z's insurance commissions are within the requirement of the State Department of Insurance. X represents that Z's activities are not a substantial part of its activities. Z's income from selling insurance products when compared to X represents 1% to 2% of X's total revenues.

Section 501(c)(4) of the Code provides, in part, for the exemption from federal income tax for civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations 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 that is operated primarily for the purpose of bringing about civic betterments and social improvements.

Section 1.501(c)(4)-1(a)(2)(ii) of the regulations provides that an organization is not operated primarily for the promotion of social welfare if its primary activity is carrying on a business with the general public in a manner similar to organizations which are operated for profit.

Section 511 of the Code provides, in part, for the imposition of tax on the unrelated business taxable income of organizations described in section 501(c).

Section 512(a)(1) of the Code provides that the term "unrelated business taxable income" means the gross income derived by any organization from any unrelated trade or business (as defined in section 513) regularly carried on by it, less the deductions which are directly connected with the carrying on of such trade or business.

Section 513(a) of the Code defines the term "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its exempt purpose or function that constitutes the basis for its exemption under section 501.

Section 1.513-1(d)(2) of the regulations provides that a trade or business is related to an organization's exempt purposes only where the conduct of the business activities has a causal relationship to the achievement of exempt purposes, and it is substantially related, for purposes of section 513 of the Code, only if the causal relationship is a substantial one.

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 insurance for its members on the basis of assessed premiums is not primarily engaged in the promotion of the social welfare for exemption under section 501(c)(4) of the Code. See also American Association of Christian School etc. v. U.S., 850 F.2d 1510, (11th Cir. 1988).

As a limited liability company that is wholly-owned by X and treated as a disregarded entity, the activities of Z are imputed to X. Z is an insurance agency selling insurance products. As held in

*Mutual Aid Association of Church of the Brethren, supra* and *American Association of Christian School, supra*, the primary activity of Z of selling insurance does not promote social welfare for exemption under section 501(c)(4) of the Code. As a wholly-owned disregarded entity, Z's activities imputed to X are not substantially related to X's exempt purpose under section 501(c)(4) and are treated as unrelated trade or business under section 513 to X. However, because Z's activities are an insubstantial part of X's total activities of promoting social welfare, such activities, although treated as unrelated trade or business which income are subject to tax under section 511, will not adversely affect X's continued exemption under section 501(c)(4).

Therefore, we rule as follows:

1. Z's activities will not adversely affect X's tax-exempt status under section 50)(c)(4) of the Code.
2. The sale of supplemental life, accident, dental and health insurance by Z, a licensed insurance broker, to the employees of municipalities throughout M, the majority of which are members of X and Y, is an unrelated business for X under sections 512 and 513 of the Code.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

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

Sincerely,

Ronald J. Shoemaker  
Acting Manager, Exempt Organizations  
Technical Group 2

Enclosure  
Notice 437