



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

Date: [REDACTED]

Contact Person: [REDACTED]

Identification Number: [REDACTED]

Contact Number: [REDACTED]

RECEIVED

District

Employer Identification Number: [REDACTED]

NO PROTEST RECEIVED
Release copies to District

Date: [REDACTED]

Surname: [REDACTED]

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)(4). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

Information provided discloses that you were incorporated on [REDACTED] as a nonprofit corporation under the laws of the [REDACTED] Nonprofit Corporation Act, KRS 273.161 et seq. Article A of your Articles of Incorporation indicates that your were formed for the following purposes:

1. To engage, on a nonprofit basis, in the ownership and operation of a provider sponsored entity which arranges for the provision of health care services to patients, employers, insurers, and managed care entities.
2. To participate, so far as circumstances may warrant, in any activity designed and carried on to promote the general health of the community; and
3. To engage in any other lawful purposes according to KRS 273.167 which is intended to further the purposes of the Corporation.

In response to our question regarding the activities which you have engaged in since your inception, you indicated that managed care penetration in this marketplace was increasing. In order to respond to the increasing demand from employers, managed care networks, and insurers, you indicate that there were months of strategic planning undertaken. You further indicate that representatives of all these factions, along with hospital, physician and other provider representatives, met to determine the feasibility of a more integrated approach to the provision of healthcare services to the residents of the local community within the [REDACTED] and [REDACTED] medical service area. You indicate that after months of collaborative activities, it appeared that there were things that could be offered by both the

[REDACTED]

consumers and providers which would serve to support the needs of both. You state that at that point, [REDACTED] (PPO), made the decision to form your organization. You represent that you are to assist the hospital and the [REDACTED] in becoming a forceful participant in the evolution of the area's healthcare delivery system. The intent was to focus on the provision of high quality, cost effective care to the employer, payer, and direct consumer of services.

Since September of 1996, you indicate that you have been a key provider network in your region. Over the past three years, you have contracted with the major managed care networks that provide coverage for area residents. You also indicate that you have contracted with the [REDACTED] to afford savings to this community which pays cash for healthcare services. You also assist in contract review for the hospital and physicians in your organization. [REDACTED] and over 280 physicians and other providers are the providers of healthcare services for your organization. The physicians/providers are in the classifications of MD, DO, DC, OD, DPM, ARNP, PT and one CRNA. Services are provided at the hospitals and one behavioral health facility, ambulatory surgery centers, OP diagnostic centers and private physician offices.

You list [REDACTED]

[REDACTED] for the [REDACTED] plan. You are the preferred participating provider network for the [REDACTED], which covers the employees of [REDACTED]. There is an administrative withhold paid to you by this plan. You state that [REDACTED] Health Plan was a short-term contractual agreement with you to provide access to your network and the plan paid you an access fee. [REDACTED] is your hospital partner and also employs some physicians and nurse practitioners who are provider members of your organization. [REDACTED] (now dissolved) was a network which paid an access fee to utilize your network of providers for their covered members.

You have six board members, three from [REDACTED] and three physician providers who are elected by the members of [REDACTED]. You state that each of these organizations maintains equal equity and governance over your organization. In your application you state that upon dissolution, your assets will be returned to the contributor, in situations where such assets are subject to this condition, and remaining assets may be sold to members at fair market value. You also indicate that if agreement is not reached as to the value of assets, these assets will be sold to independent third parties purchasers or the highest bidder.

Section 501(c)(4)(A) of the Internal Revenue Code (the Code) provides for the exemption from federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

Section 501(c)(4)(B) of the Code states that subparagraph (A) shall not apply to an entity unless no part of the net earnings of such entity inures to the benefit of any private shareholder or individual.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations (the 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.

Section 1.501(c)(4)-1(a)(ii)(2) 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 that are operated for profit.

Rev. Rul. 70-535, 1970-2 C.B. 117, describes an organization that entered into agreements with a number of nonprofit corporations exempt from federal income tax under section 501(a) of the Code to manage low and moderate-income housing projects for a fee. In holding that this organization does not qualify for exemption under section 501(c)(4) of the Code, it was determined that the organization operated in a manner similar to those providing such management services for profit. All of its income is from management fees. Its funds are used to meet expenses incurred in providing the management services. Managing these housing projects is the organization's primary activity. Its other activities are negligible.

Rev. Rul. 86-98, 1986-2 C.B. 74, holds that an individual practice association that provides health services through written agreements with health maintenance organizations does not qualify for exemption from federal income tax under section 501(c)(4) of the Code.

Information you have submitted clearly shows that your primary purpose is to arrange for healthcare services to patients for the benefit of employers, insurers and managed care entities. By providing these contracting services, your activities primarily benefit employers, insurers and private, for-profit healthcare providers in your network area and not the community as a whole. You perform no activities that directly benefit the community as a whole, so that any benefit derived by the community from your activities is remote and incidental. You are operated in a manner similar to the organization described in Rev. Rul. 70-535, *supra*, since your activities are similar to those of an organization operated for profit. Your primary beneficiaries are your members and healthcare providers. Further, since you are jointly controlled by a hospital and an IPA, you are similar to the organization described in Rev. Rul. 86-98, *supra*, which conferred impermissible private benefits on physicians. The fact that you also have an exempt hospital member does not negate the benefits your operations confer on physicians in private practice and other for-profit healthcare providers.

Accordingly, since you are not operated exclusively for the promotion of social welfare and your activities benefit private individuals and entities, you do not qualify for exemption as an organization described in section 501(c)(4) of the Code and 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 to this office, 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 Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and a copy will be forwarded to the Ohio Tax Exempt and Government Entities (TE/GE) office. Thereafter, any questions about your federal income tax status should be directed to that office, either by calling 877-829-5500 (a toll free number) or sending correspondence to: Internal Revenue Service, TE/GE Customer Service, P.O. Box 2508, Cincinnati, OH 45201.

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



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

Sincerely,

