

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Attention: Contact: [REDACTED]

Telephone Number: [REDACTED]

Mail Reply to:

CP:E:EO:T:1:LMB

Date:

DEC 17 1996

Employer Identification Number: [REDACTED]

Key District: Southeast (Baltimore, MD)

Form: 1120

Tax Years: 1994, 1995

Dear Applicant:

This letter constitutes a final adverse ruling with respect to your claim of exemption from federal income taxation under section 501(c)(4) of the Internal Revenue Code.

We make our ruling for the following reason(s):

Since your express purpose is to negotiate contracts on behalf of your members with third party payors and to provide various types of commercial services to your members, you operate primarily for the private benefit of your members who exercise control of your organization through its board of directors. Your organization is operated primarily for the private benefit of its members, rather than for the exclusive benefit of the public. Your organization is not providing any greater access to health care than is being provided by your members, similar to the IPA in Rev. Rul. 86-98, 1986-2 C.B. 75. Therefore, your operation is no different than an operation which is carried on for profit, the primary beneficiaries of which are the owners of the business, not the community as a whole.

The Code and the regulations issued thereunder require that you file federal income tax returns. Based upon the financial information that you furnished, you should file returns on the form and for the tax years indicated above within 30 days from the date of this letter with your key District Director for exempt organization matters, shown above, unless you request and your key District Director grants an extension of time to file the returns. You should file returns for later tax years with the appropriate service center indicated in the instructions for those returns.

[REDACTED]

If you have any questions concerning the reasons for this ruling, please contact the person whose name and telephone number appear in the heading of this letter. You should address questions concerning the filing of returns to your key District Director.

Sincerely,

(signed) [REDACTED]

[REDACTED]  
Chief, Exempt Organizations  
Technical Branch 1

**Internal Revenue Service**

**Department of the Treasury**

Washington, DC 20224

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: CP:E:EO:T:1:LMB

Date: SEP 20 1995

Employer Identification Number: [REDACTED]  
Key District: Atlanta

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.

**FACTS**

Your organization was incorporated on [REDACTED] under the [REDACTED] Non-Profit Act as a non-stock membership corporation. According to the Articles of Incorporation, the principal purposes of the corporation are:

1. To operate exclusively for charitable and eleemosynary purposes by providing eyecare services to the extent necessary to qualify under section 501(c) of the Internal Revenue Code.
2. To make available educational and charitable services which promote social welfare as required under section 501(c) of the Code.
3. To make available comprehensive eye/vision care services.
4. To establish, maintain and operate in accordance with A.C.A section 20-60-103(5) a non-profit eyecare benefit plan whereby eye and vision care can be provided to individuals or members of groups which foster the protection, correction and conservation of the human eye and vision.

According to your Bylaws, membership in your organization is open to all [REDACTED] licensed eyecare doctors who have properly applied to the Network, who meet the requirements of the Participation Provider Agreement (the "PPA"), who meet criteria established by the Board of Directors and who have been approved for membership by the Board.

The Bylaws also include a provision that the organization may withhold from the payments due to each member a reasonable amount for billing, administrative, collection and other expenses incurred by the Network.

The application for membership in your organization includes a statement that the applicant, if accepted for membership, has the option not to participate in any contract negotiated by the Network with any payor whose terms are unsatisfactory.

Under the PPA, a member agrees to follow various standards of practice, including the following:

To allow his or her name to be listed on the Network Panel of Doctors;

To maintain reasonable office hours that will enable him or her to be available to serve Network covered persons and that he or she must be physically in attendance at the listed office when Network covered services are provided;

To have appropriate equipment to provide Network patients quality services, and to conform to certain specified minimum equipment requirements, including any other equipment the Board determines to be essential to provide comprehensive services to covered persons;

To keep written records of tests and procedures and to make copies of them available to the Network in the event it desires to review such documents;

To provide the Network with a periodic listing of his or her usual and customary fees and, upon request, to provide the Network with such records as are necessary to verify such fees;

To submit claims on the form designated by the Network, not to charge fees that are higher than those accepted from any other group, group plan or panel and to accept the lesser of his or her usual and customary fee or the Network Maximum allowable fee as payment in full for any covered service;

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For additional services or materials which are not covered, if the Network has established a maximum fee for specific non-covered services or materials, to accept his or her usual and customary fee up to the Network maximum as payment in full;

To submit any disputes with Network patients to the Network Board of Directors or committee thereof and to agree that its decision regarding such dispute shall be final and binding;

To not seek payment from a Network patient for covered services, except for any deductible or for any non-covered services or materials; and

To agree that his or her services to covered persons will be subject to review, to abide by and adhere to rulings of the Network Board of Directors and to submit, upon request, copies of care records of Network covered persons.

In essence, the organization is a network of eyecare providers in [redacted] which, on behalf of its members, negotiates and contracts with various entities, such as employers, health insurance companies, managed care organizations and physician-hospital organizations for the delivery of eyecare services. Additionally, the organization establishes standards of practice, sets standard fees and provides claims processing, billing and collection services for the benefit of its members.

#### LAW

Section 501(a) of the Internal Revenue Code exempts from taxation those organizations described in section 501(c)(4) of the Code.

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

Section 1.501(c)(4)-1(a)(2) 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. It is an organization which is operated primarily for the purpose of bringing about civic betterments and social improvements.

In Rev. Rul. 86-98, 1986-2 C.B. 75, an individual practice association (IPA) sought recognition of exemption under section 501(c)(4) of the Code or, alternatively, under section 501(c)(6). The IPA's purpose was to arrange for the delivery of health service through written agreements negotiated with health maintenance organizations (HMOs). Its membership was limited to licensed physicians who were members of a specified county medical society. The IPA's primary activities were to serve as a bargaining agent for its members in dealing with HMOs and to perform the administrative claims services required by the agreements with the HMOs.

The IPA in this ruling was akin to a billing and collection service and a collective bargaining representative negotiating on behalf of its member physicians with HMOs. The IPA did not provide access to medical care which would not have been available but for the establishment of the IPA, nor did it provide such care at fees below what was customarily and reasonably charged by the member physicians in their private practices. As a result, the Internal Revenue Service concluded that the IPA operated in a manner similar to organizations carried on for profit, the primary beneficiaries of whom are its member physicians, rather than the community as a whole. Therefore, the Service held that it was not operated exclusively for the promotion of social welfare within the meaning of section 501(c)(4) of the Code.

In addition, the IPA primarily performed particular services for its members, as distinguished from the improvement of business conditions in the medical profession and public health area generally. It did not better conditions for all physicians in a particular community, but instead, was devoted to maximizing the fees for its members. Therefore, it was not operated as a business league within the meaning of section 501(c)(6) of the Code.

#### RATIONALE

Since your express purpose is to negotiate contracts on behalf of your members with third party payors and to provide various types of commercial services to your members, you operate primarily for the private benefit of your members who exercise control of your organization through its board of directors. Your organization is operated primarily for the private benefit of its members, rather than for the exclusive benefit of the public. Your organization is not providing any greater access to health care than is being provided by your members, similar to the IPA in Rev. Rul. 86-98, *supra*. Therefore, your operation is no different than an operation which is carried on for profit,

the primary beneficiaries of which are the owners of the business, not the community as a whole.

Accordingly, 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, 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 copies will be forwarded to your key district office. Thereafter, any questions about your federal income tax status should be addressed to that office.

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

**Internal Revenue Service**

CP:E:EO:T:1, Room 6514  
1111 Constitution Ave, 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,

Chief, Exempt Organizations  
Technical Branch 1