

CERTIFIED MAIL

18 APR 1982

6 APR 1982



Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under section 501(c)(9) of the Internal Revenue Code.

You are a trust formed on [redacted], for the purpose of providing certain welfare benefits to the employees of [redacted].

Membership is available to all full time employees and certain retired employees.

Section 1.501(c)(9)-1 of the Income Tax Regulations provides that an organization must meet all of the following requirements:

- (a) The organization is an employees' association,
- (b) Membership in the association is voluntary,
- (c) The organization provides for the payment of life, sick, accident, or other benefits to its members or their dependents or designated beneficiaries, and substantially all of its operations are in furtherance of providing such benefits, and
- (d) No part of the net earnings of the organization inures, other than by payment of the benefits referred to in paragraph (c) of this section, to the benefit of any private shareholder or individual.

Section 1.501(c)(9)-2(a)(1) of the Income Tax Regulations provides that membership of an organization described in section 501(c)(9) must consist of individuals who become entitled to participate by reason of their being employees and whose eligibility for membership is defined by reference to objective standards that constitute an employment-related common bond among such individuals. Also, whether a group of individuals is defined by a permissible standard or standards is a question to be determined with regard to all the facts and circumstances. (Emphasis added.)

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		
Surname							
Date	3/22/82	3/22/82	3-30-82	3/30/82	3/30/82		

An association will be considered to be composed of employees if 90 percent of the total membership of the association on one day of each quarter of the association's taxable year consists of employees.

The organization indicates the following information on its employees eligible for coverage:

<u>For period</u>	<u>Individuals Eligible</u>	<u>Employees Covered</u>	<u>Per cent</u>
██████████	██████████	██████████	██████████
██████████	██████████	██████████	██████████
██████████	██████████	██████████	██████████

Based on the above information the organization does not qualify for exemption from federal income tax since you do not meet the membership requirements as required by the regulations.

Therefore, we hold that you do not qualify for exemption from Federal Income Tax as an organization described in Section 501(c)(9) of the Code. You are, therefore, required to file Federal Income Tax returns.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

If you agree with this determination please sign and return the enclosed Form 6018.

Sincerely yours,

██████████  
Acting District Director

Attachments: Form 892  
Form 6018

Form **6018**  
(August 1979)

Department of the Treasury-Internal Revenue Service  
**Consent to Proposed Adverse Action**  
(All references are to the Internal Revenue Code)

Prepare In Duplicate

Case Number

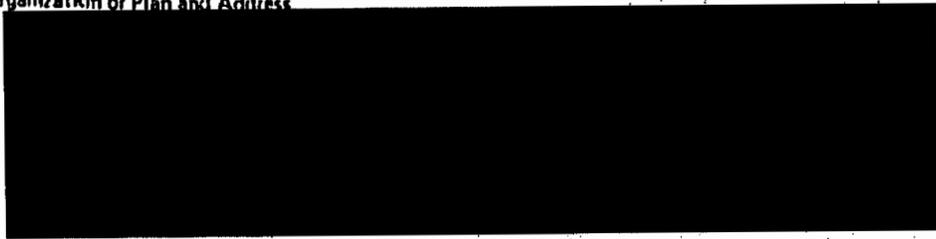
Date of Latest Determination Letter

Employer Identification Number

Date of Proposed Adverse Action Letter

6 APR 1982

Name of Organization or Plan and Address



I consent to the proposed adverse action relative to the above organization or plan, as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc.; or Section 7476, Declaratory Judgments Relating to Qualification of Certain Retirement Plans, applies, I have the right to protest the proposed adverse action.

**NATURE OF ADVERSE ACTION**

- Denial of exemption
- Revocation of exemption, effective
- Modification of exempt status, effective
- Classification as a private foundation (section 509(a)), effective
- Classification as a non-operating foundation (section 4942(j)(3)), effective
- Non-qualification under section 401(a)
- Classification as an organization described in section 509(a)( ), effective
- Classification as an organization described in section 170(b)(1)(A)( ), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428 or 7476.

(Signature instructions are on the back of this form.)

Name of Organization or Plan

Signature and Title

Date

Signature and Title

Date

Internal Revenue Service  
Regional Commissioner

Department of the Treasury

Date: MAY 13 1983

Key District:  
Chicago

Year(s):  
[REDACTED]

Person to Contact:  
[REDACTED]

Contact Telephone Number:  
[REDACTED]

[REDACTED]

Dear Applicant:

We considered your appeal of the adverse action proposed by your key District Director. The paragraph(s) checked below indicate(s) our decision.

Your exemption from Federal income tax under section IRC 501(c)(9) of the Internal Revenue Code is:

- confirmed.
- modified. A new determination letter is enclosed.
- denied or  revoked. You are required to file Federal income tax returns on Form 1120 for the above years. You should file these returns with your key District Director, EP/EO Division, within 30 days from the date of this letter, unless a request for extension of time is granted.
- You are not a private foundation because you are described in Code section(s) \_\_\_\_\_.
- You are an operating foundation as described in code section 4942(j)(3).
- You have no liability for excise taxes under IRC \_\_\_\_\_ for the above years.
- Your liability for excise taxes under IRC \_\_\_\_\_ for the above year(s) was properly reported on your return(s).
- There is no change to your unrelated business income tax liability as reported for the above years.
- Your Form(s) 990-T for the above years are accepted as filed.
- 

You may direct questions about the decision to the appeals officer whose name and telephone number are shown above.

Sincerely yours,

[REDACTED]  
Appeals Officer

Letter 1370(RO) (1-80)

SUPPORTING STATEMENT

Organization: [REDACTED]

I. & II. ISSUE AND PROPOSALS FOR SETTLEMENT:

1. Whether the subject organization should be recognized as exempt from Federal Income Tax under IRC 501(c)(9) as a voluntary employee's beneficiary association (VEBA) providing for the payment of life, sick, accident, or other benefits to their members if no part of the net earnings inures to the benefit of any private shareholder or individual.

1(a). For the reasons set out below, the Government shall make no concession on this issue.

III. & IV. FINDINGS OF FACT AND LAW AND ARGUMENT:

*Facts*

[REDACTED] is a trust formed on [REDACTED], between [REDACTED] and [REDACTED] to provide certain welfare benefits to include but not limited to a group medical plan for the exclusive benefit of the partners, associate attorneys, and permanent staff employees. The employer will manage and administer the plan as the Plan Administrator.

The organization indicates the following information on its employees eligible for coverage:

<u>For Period</u>	<u>Individual's Eligible</u>	<u>Employees Covered</u>	<u>Percent</u>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

In the Application For Exemption Form 1024 the organization stated that [REDACTED] people were entitled to receive benefits and that [REDACTED] people other than employees and their dependents were entitled to receive benefits.

In response to a developmental questionnaire by the District the organization responded that the total number of eligible individuals was [REDACTED]; [REDACTED] employees and [REDACTED] others which included.

(A) [REDACTED] general partners who received a percentage of the Firm's profits;

(B) [REDACTED] limited partners who receive a fixed compensation and percentage of the Firm's profit;

(C) [REDACTED] of Counsel will receive a fixed compensation;

(D) [REDACTED] Special Partners who received a fixed compensation.

The Plan also provides for Employee Term Life Insurance and Accidental Death and Dismemberment Insurance based upon the following classification;

- (1) Attorneys at law under age 70
- (2) Supervisors and Paralegal employees under age 70
- (3) Clerical employees under age 70 other than those in class 2
- (4) Employees age 70 but less than age 71 on the effective date of May 1, 1981
- (5) Employees age 71 but less than age 72 who were age 70 and over on the effective date of May 1, 1981.
- (6) Employees age 73 but less than age 72 who were age 70 and over on the effective date of May 1, 1981
- (7) Employees age 73 but less than age 74 who were age 70 and over on the effective date May 1, 1981
- (8) Employees age 74 but less than age 75 who were age 70 and over on the effective date May 1, 1981
- (9) Employees age 75 but less than age 76 who were age 70 and over on the effective date May 1, 1981.

Employee Life Insurance schedule of benefits:

<u>Class</u>	<u>Basic Amount</u>	<u>Maximum Amount</u>
1	■ % of annual earnings	\$ ■
2	■ % of annual earnings	■
3	■	■
4	■	■
5	■	■
6	■	■
7	■	■
8	■	■
9	■	■

Section I paragraph ■ of the Trust agreement provides: "The employer shall manage and administer the plan as the plan administrator, hereinafter called the Administrator. Section III paragraph ■ of the trust agreement provides "the trustee shall from time to time, on the written directions of the Employer, make distribution from the trust to such persons, in such manner, and in such amounts and for such purposes as may be specified in such direction, and shall on written direction of the employer from time to time make distribution from the trust to the Plan's Benefit payment checking account with ■, in such amounts as may be specified in such directions. The trustee shall be under no liability for making any distribution pursuant to the direction of the employer and shall be under no duty to make inquiry as to whether distribution directed by the employer is made pursuant to the provisions of the Plan. The trustee shall not be liable for the proper application of any part of the trust if distributions are made in accordance with the written directions of the employer nor shall the trustee be responsible for the adequacy of the trust fund to meet and discharge any and all payments and liabilities under the Plan".

Law and Argument

Section 1.501(c)(9)-1 of the Income Tax Regulation provides that an organization must meet all of the following requirements:

- (A) The organization is an employee's association,
- (B) Membership in the association is voluntary,
- (C) The organization pays for the life, sick, accident, or other benefits to its members or their dependents or designated beneficiaries, and substantially all of its operations are in furtherance of providing such benefits, and
- (D) No part of the net earnings of the organization inures, other than by payment of the benefits referred to in paragraph (C) of this section, to the benefit of any private shareholder or individual.

Section 1.501(c)(9)-2(a)(1) of the Income Tax Regulations provides that membership of an organization described in Section 501(c)(9) must consist of individuals who become entitled to participate by reason of their being employees and whose eligibility for membership is defined by reference to objective standards that constitute an employment-related common bond among such individuals. Also, whether a group of individuals is defined by reference to a permissible standard or standards is a question to be determined with regard to all the facts and circumstances.

An association will be considered to be composed of employees if 90 percent of the total membership of the association on one day of each quarter of the associations' taxable year consist of employees.

Regulations 1.501(c)(9)-4(b) Disproportionate benefits. "For purposes of Subsection(a), the payment to any member of disproportionate benefits, where such payment is not pursuant to objective and nondiscriminatory standards, will not be considered a benefit within the meaning of Section 1.501(c)(9)-3 even though the benefit otherwise is one of the type permitted by that Section. For example, the payment to highly compensated personnel of benefits that are disproportionate in relation to benefits received by other members of the association will constitute prohibited inurement. Also, the payment to similarly situated employees of benefits that differ in kind or amount will constitute prohibited inurement unless the difference can be justified on the basis of objective and reasonable standards adopted by the association or on the basis of standards adopted pursuant to the terms of a collective bargaining agreement. In general, benefits paid pursuant to standards or subject to conditions that do not provide for disproportionate benefits to officers, shareholders, or highly compensated employees will not be considered disproportionate.

disproportionate benefits to members who are officer's share-  
holders and highly compensated employees by the contributing  
employer constitutes inurement.

IV. CONCLUSION:

Based on the above discussion it is recommended that the  
exempt status of [REDACTED] be denied.