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Date 2-17-88

Surname [REDACTED]

JAN 11 1988

Your District Office: [REDACTED]
Employer Identification Number: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(2) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify under that section.

You were incorporated under the laws of [REDACTED] on [REDACTED]. You state that you are a professional provider organization developed through a joint venture effort of [REDACTED], the medical staff of [REDACTED], and other health care providers. You are a competitive health plan alternative which contracts with physicians, hospitals, and other providers to provide health care services for employee groups at contracted, fee for service prices. These providers also agree to cooperate with effective utilization review/quality assurance guidelines. Your goals include efficient delivery of quality care and effective cost management for services delivered, with resulting access to new patient markets for participating providers.

Your general operation may be described as follows: An employer will contract with you to provide services for a defined group of employees and their dependents; you will contract with physicians, hospitals and other providers that agree to provide services for enrolled members. The employer will pay only for those services actually used by individuals covered under the company's plan.

You are a membership organization whose membership consists of [REDACTED] and [REDACTED].

Your Board of Directors is composed of [REDACTED] physicians and [REDACTED] other directors appointed by [REDACTED] and [REDACTED] other directors appointed by [REDACTED]. In order to be eligible for election as a physician director, a physician must be a contracting physician under contract with you at the time of election.

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Your principal source of financial support will be contract fees. Your expenditures are for expenses related to your operations.

Section 501(c)(2) of the Code provides for exemption from Federal income tax of organizations organized and operated exclusively for charitable, scientific, or educational purposes, no part of the net assets of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(2)-1(d)(1)(ii) of the Income Tax Regulations provides that an organization is not organized or operated exclusively for any purpose set forth in section 501(c)(2) unless it serves a public rather than a private interest.

Section 1.501(c)(2)-1(a)(1) of the regulations provides that, in general, an organization may meet the requirements of section 501(c)(2) of the Code although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in section 512. In determining the existence or nonexistence of such primary purpose, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities which are in furtherance of one or more exempt purposes.

Section 512 of the Code defines "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 charitable, educational or other purpose or function constituting the basis for its exemption under section 501 with certain exceptions not here relevant.

In the general law of charity, the promotion of health is considered to be a charitable purpose. Restatement (second) of Trust, sections 269, 272 (1967). See Scott on Trust, sections 269, 272 (2d ed. 1967).

If soliciting patients for your providers, you are conducting an activity which is neither charitable nor educational within the meaning of section 501(c)(2). Such activity has all the attributes of a trade or business as defined in section 512.

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[REDACTED]

You have established a fee schedule for your participating physicians and dentists based on a report by qualified independent consultants. The effect of this is to ensure that the fees charged are reasonable to the physicians rather than the patients.

Your bylaws require that your Board of Directors be composed partially of physicians under contract with you to provide medical services. This indicates that you are operating on behalf of your members and directors and not exclusively in the public interest.

Your operations have no effect on the quality or quantity of medical care available in the community. Because the public benefit is minimal compared to the private benefits derived by your members, you cannot be said to be promoting health in the charitable sense of section 501(c)(2).

Based on the foregoing, we have concluded that you are not exempt from Federal Income tax under section 501(c)(3) of the Code since you are not operated exclusively for charitable or educational purposes.

Contributions to you are not deductible under section 170 of the Code.

You are required to file Federal Income tax returns.

You have the right to protest this ruling if you believe that 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 principal officers, must be submitted in duplicate 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 principal officers, he must file a proper power of attorney and otherwise qualify under the Conference and Practice Requirements.

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(h)(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 administrative remedies available to it within the Internal Revenue Service.

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[Redacted]

If we do not hear from you within 30 days of the date of this letter, this matter will be furnished to the District Director, Atlanta, Georgia which is your key district for exempt organization matters. Therefore, any questions about your federal tax status or the filing of returns should be addressed to that office. Also, the appropriate state officials will be notified of this action in accordance with section 514(c) of the Code.

Sincerely yours,

(signed) [Redacted]

[Redacted]

cc: [Redacted]

cc: w/Form 5008
State Officials of [Redacted]

cc: [Redacted]

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Code	[Redacted]	[Redacted]					
Turnname	[Redacted]	[Redacted]					
Date	1-4-88	1-4-88					

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