

Internal Revenue Service

Department of the Treasury

District
Director

P.O. Box 2508
Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Refer Reply to:

EP/EO

Date: SEP 18 1987

*No protest filed
10-30-87*

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(6) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1120.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not

[REDACTED]

one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely yours,

[REDACTED]

[REDACTED]

District Director

Enclosures: 3

Enclosure I
Reasons for proposed denial of exempt status

████████████████████

Information submitted with your application indicates that you were incorporated on ██████████ in the State of ██████. Your Articles of Incorporation state that your purposes are:

- a. To promote, develop and encourage the continuation of the private practice of medicine;
- b. To develop alternative plans for the delivery of medical services;
- c. To develop programs to make medical services available to those persons in need of such services but who are not being adequately served;
- d. To conduct and sponsor research and pilot programs to provide medical services to the general public;
- e. To engage in thorough and searching cost analysis of medical service plans to devise ways to minimize costs;
- h. To do any an all things necessary or incident to the carrying out of the purposes hereinabove set forth;
- i. The foregoing shall be construed as both objects and powers, and the enumeration thereof shall not be held to limit or restrict in any manner the general powers conferred on this corporation by the laws of the State of Ohio.

Items "f" and "g" are not enumerated in the copy of your Articles of Incorporation submitted with your application.

Your Code of Regulations provides that you will have one class of members and the qualification of the members of such class shall be medical doctors practicing in the ██████████ area. You do not have annual membership dues. Your initial membership dues was \$█████.

In your application you indicated that your organization is a professional association composed of medical doctors practicing in the ██████████ area and that you are organized to study and develop alternative plans for the delivery of medical services. Accordingly, you have conducted a feasibility study.

You state that your organization was originally established by the doctors in the area for the purpose of studying alternative health plans and to disseminate information about such plans to the medical community and that you are actively engaged in the education of physicians and the administrative staff of the local hospitals in the

Enclosure I cont'd

ever changing field of health care. Your organization contracted with a company to conduct a feasibility study to determine if it would be appropriate or necessary to develop an alternative form of health care delivery and financing in the [redacted] and surrounding area, i.e., to determine if a doctor controlled IPA-HMO would be viable in the area. The feasibility study concluded that an IPA-HMO, sponsored by the medical profession, would offer the community a competitive alternative to the other health benefit plans currently offered in the area. As a result of the feasibility study, an independent participating association for your [redacted] area was developed called [redacted], [redacted], a for profit organization which joined forces with an HMO out of [redacted] called [redacted]. Your officers meet on a six month basis to discuss and review the options available from HMO's and PPO's. When new developments or proposals arise, either meetings are called or correspondence with your members is initiated.

You will be financially supported by membership dues, donations, and interest income. Your financial statement for the year ended [redacted] shows gross income of \$[redacted] consisting of membership dues of \$[redacted]; interest income of \$[redacted]; and program receipts of \$[redacted]. The program receipts was received from a meeting held to discuss the formation of an Independent Practice Association by your organization. [redacted] non-member physicians attending this meeting were asked to pay the cost of their meal thus accounting for the program receipts.

Funds were spent primarily to pay for your feasibility study (\$[redacted]), attorney fees (\$[redacted]), xeroxing and postage (\$[redacted]), dinner meeting (\$[redacted]) and miscellaneous expenses of \$[redacted]. Excess cash of \$[redacted] was placed in an interest bearing account. Proposed budgets you submitted show interest income as your only anticipated source of income. Expenditures will consist of xeroxing and postage, printing, office supplies, meal expenses and bank service charges.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues, chambers of commerce, real-estate boards, boards of trade or professional football leagues (whether or not administering a pension fund for football players), not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote such common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services

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for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. An association engaged in furnishing information to prospective investors; to enable them to make sound investments, is not a business league, even though all of its income is devoted to the purpose stated.

In Revenue Ruling 67-77, 1967-1 C.B. 138, an organization composed of dealers in a certain make of automobile in a designated area was organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by dealer members, the sale of that make of automobile. It was held that the organization was performing particular services for its members and was not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code. Membership in the organization was restricted to dealers who held franchises for the sale of a certain make of automobile in a designated area. It was formed to unite the dealers in that area and to finance general advertising campaigns which promoted the sale of automobiles, parts, and services. Its only income consisted of contributions from the dealer-members. The size of these contributions was determined by the number of automobiles purchased from the manufacturer by each member. It was determined that the organization, instead of engaging in activities for the improvement of business conditions in the automotive industry as a whole, was performing services for its members by advertising the make of automobile sold by its members. Therefore, it was not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Code.

We have determined that the activities conducted by your organization do not differ materially from those of the organization described in Rev. Rul. 67-77 in that you use your membership dues to finance studies in order to determine whether your members should participate in various ventures, e.g., your positive decision to form and participate in a for profit IPA-HNO. Also, your activities do not differ materially from those of an organization engaged in furnishing information to individuals to enable them to make sound investments.

On the basis of all the evidence presented, it is concluded that the members of your organization have no interest other than the mutual desire to advance their own economic interests. Your activities are not directed to the improvement of business conditions of one or more lines of business, but rather to the promotion of the private interests of your members. By conducting studies to determine alternative plans for the delivery of medical services by your member doctors, you are conducting activities for the mutual and exclusive benefit of your members. These types of activities constitute the performance of

particular services for your members which is prohibited under section 501(c)(6) of the Code. Your organization is primarily engaged in activities which constitute the performance of particular services for your members, therefore, you are not primarily engaged in activities which constitute a basis for exemption under section 501(c)(6) of the Code. Accordingly, we have determined that your organization is not a business league within the intendment of section 501(c)(6) of the Code and your activities do not further any common business interest.