

Internal Revenue Service

Department of the Treasury

District
Director

P.O. Box 1680, GPO Brooklyn, N.Y. 11202

Date: AUG 13 1984

Person to Contact:

Contact Telephone Number:

Refer Reply to:

Gentlemen:

We have considered your application for tax exempt status under section 501(c)(4) of the Internal Revenue Code.

The evidence presented discloses that you were formed as a [REDACTED] corporation under section [REDACTED] of the Not-for-Profit Corporation law of the State of [REDACTED].

The purposes of the organization as stated in its certificate of incorporation are 1) to further the needs and welfare of employees and staff of common organization; 2) to conduct lectures and forums for communal employees and to provide a media of exchange of ideas and methods of effective communal services; 3) to assist communal organizations in acquiring and retaining competent personnel.

The major activities of the organization will be to serve as a conduct through which group medical coverage will be made available to members and to provide an employee referral service. Membership is restricted to any employee of an organization exempt under section 501(c)(3) or 501(c)(4). The organization's income will be received from interest received while retaining member's insurance premiums until payment to the insurer. The organization's expenses consist of salaries, rent, and seminars.

Section 501(c)(4) of the Internal Revenue Code states that 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 a designated person or persons in a particular municipality and the net earnings of which are devoted exclusively to charitable, educational or recreational purposes are exempt under section 501(a) of the Internal Revenue Code.

Section 1.501(c)(4)-1(b) of the Income Tax Regulations states that to qualify as a local association of employees exempt from tax it is required 1) that the membership of such an organization be limited to the employees of a designated person or persons in a particular municipality and 2) that the net earnings of the association be devoted exclusively to charitable, educational or recreational purposes.

The term "local" is defined in section 1.501(c)(12)-1(b) of the Income Tax Regulations. It states that an organization of a purely local character is one whose business activities are confined to a particular community, place, or district, irrespective however, of political subdivisions. If the activities of an organization are limited only by the borders of a State, it cannot be considered to be purely local in character.

Revenue Ruling 66-59 states that an organization whose purpose is to pay lump-sum retirement benefits to its members or death benefits to their survivors does not qualify as a local association of employees because such disbursements are not devoted to charitable, educational or recreational purposes within the meaning of section 501(c)(4) of the Internal Revenue Code.

Revenue Ruling 75-199 states that an organization which provides sick benefits to members and death benefits would not be exempt for tax years after June 2, 1975.

In New York State Association of Real Estate Bds. Group, Inc. Fund v. Commissioner, 54 T.C., 1325 (1970), the Tax Court ruled that an organization which gathered and disbursed insurance premiums paid by its members so as to receive group insurance coverage was organized for the sole benefit of its members and thus did not qualify under section 501(c)(4).

Revenue Ruling 79-128 states that an organization, whose membership is limited to the employees of an employer in a particular municipality, which arranges with various businesses to extend discounts to members on their purchases of goods and services, is operated primarily as a cooperative buying service for its members and as such is not a "local association of employees" devoted exclusively to charitable, educational or recreational purposes as contemplated under section 501(c)(4).

Code section 501(c)(4) permits exemption to two general classifications of organizations; organizations promoting social welfare and local associations of employees whose earnings are devoted to charitable, educational, or recreational purposes.

The intent of your organization's application is to receive exemption under section 501(c)(4) as a local association of employees. Your organization cannot receive exemption under section 501(c)(4) as local association of employees two reasons.

Article III, paragraph 1 of your organization's by-laws state, "any employee of an organization exempt from taxation under section 501(c)(3) or 501(c)(4) of the Internal Revenue Code shall be eligible to membership. "There are no geographical restrictions. The activities of those organizations associated with you are not confined to a particular community, place or district. Thus, your organization fails to meet the requirement to be a local nature.

The organization's primary activity is to provide the means through which individuals can receive group insurance coverage. The organization makes an agreement with an insurer, collects premiums from individual members, and pays the premiums of the group to the insurer, retaining any accumulated interest. By joining the organization and paying premiums, to it members pay considerably less for health insurance as a group than if members paid premiums as individuals. Therefore, your organization's insurance activities are in the nature of a cooperative buying service and thus your organization would not qualify as a local association of employees pursuant to Revenue Ruling 79-128.

Nor does your organization qualify as a social welfare organization. The provision of insurance benefits and the establishment of a referral service provides primary benefit to the organization's members, and little if any benefit to the community.

Based on the abovementioned facts and law, your organization does not qualify for exemption under section 501(c)(4) of the Internal Revenue Code. Nor does your organization presently qualify for exemption under any other section of the Internal Revenue Code.

You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination you may protest in accordance with the enclosed instructions within 30 days.

Sincerely yours,

[Redacted Signature]

District Director

cc:

[Redacted CC List]

Enclosure: Publication 892