

A life insurance company operates under a state permit empowering it to do business as a local mutual aid association in those counties any part of which is within a radius of 75 miles of its home office. The authorized territory includes 32 counties in which three large metropolitan trade centers are located. Although most of the business of the organization is confined to a local rural area, policies have been issued to residents of counties outside of the immediate local area. Held, the operations of the organization are not 'of a purely local character' and therefore the organization cannot qualify for exemption from tax as an organization described in section 501(c)(12) of the Internal Revenue Code of 1954.

Advice has been requested whether a life insurance company operating under a state permit empowering it to do business as a local mutual aid association qualifies for exemption from Federal income tax as an organization described in section 501(c)(12) of the Internal Revenue Code of 1954 under the circumstances described below.

The instant insurance company was formed to operate as a local mutual aid association under a state law which confines operations in the writing of business to one county or to a territory embraced within a radius of 75 miles of the city or town wherein the home office of such association is located, including all parts of all counties traversed by said radius. It is licensed to operate under a certificate granted by the State Board of Insurance Commissioners which authorizes business in a territory including all of 32 counties.

The home office of the association is located in a rural area approximately halfway between two large metropolitan trade centers which fall within the authorized territory. The territory also includes a third large metropolitan market area.

Approximately 99.6 percent of all policies sold were issued to residents of the home office county and two contiguous counties. All business outside the three-county area (.4 percent) resulted from inquiries made directly to the company rather than from solicitation.

Section 501(c)(12) of the Code exempts from taxation 'Benevolent life insurance associations of a purely local character,' provided 85 percent or more of income consists of amounts collected from members for the sole purpose of meeting losses and expenses. The instant organization's compliance with the 85 percent rule is not in issue. The only question to be decided is whether the organization is 'of a purely local character.'

Section 1.501(c)(12)-1(b) of the Income Tax Regulations relating to local benevolent life insurance associations, etc.,

explains the meaning 'of a purely local character' as follows:

The phrase 'of a purely local character' applies to benevolent life insurance associations, and not to the other organizations specified in section 501(c)(12). It also applies to any organization seeking exemption on the ground that it is an organization similar to a benevolent life insurance association. 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.

The word 'purely,' as used in this section, intensifies and limits 'local' and indicates the intention of Congress to exempt from taxation the income of only those benevolent life insurance associations, and like organizations, which are entirely and unqualifiedly 'local' in their operations. L.O. 792, C.B. 1, 205 (1919). This negates the idea that the statute is complied with if most of the business of the association is confined to a particular area. Thus, the conduct of business activities in more than one such area would prevent the association from being considered 'purely local' in character.

The words 'purely local character' imply a single locality, irrespective of political subdivisions. The important criterion is that the business be transacted, and be authorized to be transacted, in a single community, place or district and not in several different localities. Any area which includes two or more large trade centers cannot be called 'purely local in character.' S.T. 405, C.B. II-1, 250 (1923), held that an insurance company which operated in fourteen counties of a state and was authorized to transact business in the entire state was not purely local in character. On the other hand, state lines are not controlling since, not infrequently, even small communities include within their boundaries portions of different states. L.O. 792, above. It is necessary to examine the facts in each case to determine whether the operations of a taxpayer claiming exemptions are local in character.

In the instant case, the organization is authorized to transact business in one of the most populous areas of the state. The authorized 32 county area includes three distantly separated large metropolitan trade center areas, and rural areas. Although the organization has conducted most of its business in the rural counties around its home office, it has conducted some business in a different locality.

The fact that the organization in this case qualifies as a local mutual aid association under state law is not determinative of its qualification as an association 'of a purely local character' within the meaning of section 501(c)(12) of the Code.

In review of the foregoing, it is held that the operations of the instant organization are not of a 'purely local character' and therefore the organization does not qualify for exemption under section 501(c)(12) of the Code.