

**DEPARTMENT OF THE TREASURY**

**INTERNAL REVENUE SERVICE**

1100 Commerce Street  
Dallas, TX. 75242

**TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION**

**Date November 18, 2004**

Number: **200531019**  
Release Date: 8/05/2005  
TE:GE:EO

UIL: 501.15-00

**Legend:**

**A= Name of Organization**  
**B= Employer Identification Number**  
**C= Tax Year Ended**  
**D= Local Tax\Advocate's Office**  
**Date1= Date of the letter**  
**Date2= Effective Date**

**Taxpayer Identification Number:**

**B**  
**Form:**

**Tax Year(s) Ended:**

**C**  
**Person to Contact/ID Number:**

**Contact Numbers:**

**Telephone:**

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

**Dear**

**This is our final adverse determination letter as to your exempt status under § 501(c)(15) of the Internal Revenue Code. Although for the year of the examination, there was no evidence to support revocation, we have determined, and you have agreed, that for years beginning Date 2, you were not operated as an “insurance company” within the meaning of § 501(C)(15) of the Internal Revenue Code. Your exempt status is revoked effective Date 2.**

**Our decision is outlined in the Technical Advice Memorandum that is enclosed which further explains why we believe an adjustment of your organization's exempt status is necessary.**

**Although you have agreed to our determination that your exempt status under Internal Revenue Code section 501(c)(3) is revoked for all years beginning, Date 2, we have also enclosed Publication 892, Exempt Organization Appeal Procedures for Unagreed Issues, and Publication 3498, *The Examination Process*. These**

**publications include information on your rights as a taxpayer and they explain appeal rights.**

**Because this case involves exemption under I.R.C. § 501(c)(15), you cannot contest the adverse determination in a declaratory judgment action under I.R.C. § 7428. You can, however, contest the revocation of exempt status in the context of any related deficiency case involving adjustments that flow from the loss of exemption. Thus, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, from any deficiency notice issued in this case or a related case after satisfying procedural and jurisdictional requirements as described in Publications 3498 and 892.**

**You are required to file federal income tax returns for the tax period(s) shown above, for all years still open under the statute of limitations, and for all later years. File the federal tax return for the tax period(s) shown above with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.**

**You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:**

**If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.**

**Thank you for your cooperation.**

**Sincerely,**

**R. C. Johnson  
Director, EO Examinations**

**Enclosures:  
Publication 892  
Publication 3498  
Technical Advice Memorandum**

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

**Issue:**

Whether [redacted] continues to qualify for exemption under section 501(c)(15) of the Internal Revenue Code?

**Facts:**

[redacted] was organized in [redacted] in the [redacted] and [redacted]. In [redacted] they filed Application for Recognition of Exemption Under Section 501(a), Form 1024. On September 8, [redacted] they filed the 953(d) election. On December 19, [redacted] they received their exemption under section 501(c)(15) from the Service.

The purpose of the organization is to reinsure various risks. They assume risks from direct writing insurance companies. In December [redacted] they signed a reinsurance agreement with [redacted], which ceded 80% of liability under credit life insurance certificates and credit disability insurance certificates. In October of [redacted], Consolidated recaptured the entire unearned portion of the risks covered and ceded.

In [redacted] signed an agreement with [redacted] a wholly-owned subsidiary of [redacted]. [redacted] is licensed to sell life and disability policies in the state of [redacted].

The policies are sold through [redacted] to individuals who purchase vehicles from [redacted] Nissan and [redacted] Honda. A breakdown of ownership of [redacted] Nissan, [redacted] Honda, [redacted] is below:

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**Nissan**

- 61.4% owned by [redacted]
- 4.2% owned by [redacted]
- remainder held by parents as custodians for their children

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Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

- Honda
- 75% owned by
- 25% owned by

licensed to sell insurance in State of . Sales of insurance products at dealerships through

- 70% owned by
- 30% remainder owned equally by
- established under
- administer policies sold at Nissan and Honda
- receives commission on life and disability policies sold at the dealerships

**EXAMPLE OF FLOW OF FUNDS:**

- Finance and insurance personnel at dealership collect the premium from customers when car is sold
- 100% of the premium is remitted to
- 67.5% of the premium is remitted by to the direct writing policy issuer,
- 32.5% of the premium is retained by as commissions.
- remits 6.5% back to the producing dealership as its commission
- subtracts its administrative fee of 10.75% from its 67.5%. The remainder less cancellations and claims is remitted to this organization ( ) along with a monthly cession statement
- For its 10.75% administrative fee, provides all policy administration including policy forms, claims administration, and accounting administration.
- Therefore, 56.75% of the premiums collected are remitted to this organization.

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
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During the operation of various loans have been made to shareholders. A breakdown of these loans follows:

**PROMISSORY NOTES**

NAME	DATE	AMOUNT	INTEREST RATE	PAYMENT S	PAY-OFF DATE
		\$	5.88%	\$ /yearly	
		\$	6.87%	\$ /yearly	
		\$	5.54%	\$ /quarterly	
		\$	6.2%	\$ /yearly	
		\$	5.45%	\$ /quarterly	
		\$	2.70%		

A breakdown of Total Revenue from is below:

Premiums				
Interest/Dividends				
Total Revenue				
Premium/Total Revenue	38.2%	43.6%	52.6%	31.5%

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
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An examination of the Form 990 for [redacted] disclosed no findings that warrant revocation of the organization's tax exempt status. An examination of the related automobile dealerships by SBSE also disclosed no reason for revocation. During the examination, the organization indicated to this agent and [redacted] that they are seriously considering terminating this organization in the near future.

In a letter (attached) from the organization, dated June 15, [redacted], they proposed that we consider revocation of their exemption beginning December 31, [redacted] and they would file taxable returns for [redacted] and beyond. In exchange, the Service would close the [redacted] year and not pursue the [redacted] year.

**Conclusion:**

The examination of this organization as well as the two automobile dealerships provided no evidence to support revocation of the organization's tax exempt status during the year under examination. However, the organization is aware that their credit life and accidental health insurance production has significantly declined in recent years. With this and the discussions with the organization about terminating their existence, it is felt that the proposal made by the organization in the attached letter should be accepted.