



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Number: **200831028**
Release Date: 8/1/2008

Date: May 5, 2008

UIL: 501.15-00

Contact Person:

Identification Number:

Telephone Number:

Employer Identification Number:

SE:T:EO:RA:T:3

Legend:

Insurance Company =

Receiver =

State =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Dear :

We have considered your ruling request dated April 10, 2008, requesting a determination that Insurance Company will not suffer any adverse federal tax consequences under section 501(c)(15) of the Internal Revenue Code (hereafter "Code") with regard to Receiver's final distributions to creditors and the closing of the receivership estate.

You represent that Insurance Company is an insolvent insurance company being liquidated under the supervision and control of the court appointed statutory Receiver. As of Date 1, Insurance Company was recognized by the Service as an insurance company described in section 501(c)(15) of the Code and therefore exempt from Federal income tax. You represent that Insurance Company was never a life insurance company within the meaning of section 816(a) of the Code. Insurance Company was incorporated as a property and casualty insurance company, and at all times transacted business exclusively as a property and casualty insurer. On Date 2, the State Court placed Insurance Company in receivership due to its financial condition. You represent that during this period in which Insurance Company was under the control of the court appointed statutory Receiver, it only administered insurance claims and did not issue any insurance contracts. On Date 3, the State Court found that Insurance Company was insolvent and ordered Receiver to liquidate Insurance Company. By court order dated Date 4, the State Court approved Receiver's recommendations as to creditors' claims, amounts due and priorities of payment. Presently, all assets of Insurance Company have been liquidated and all creditor claims have been paid but for the final distribution of the remaining assets. The record indicates that Receiver has held off making a final distribution of

the receivership estate pending a determination from the Service that said final distribution will not result in federal tax liability under 501(c)(15) of the Code.

You have requested a ruling that Insurance Company will not suffer any adverse federal tax consequences under section 501(c)(15) of the Code with regard to Receiver's final distributions to creditors and the closing of the receivership estate.

Under section 501(a) of the Code, an organization described in section 501(c) is exempt from federal income tax.

Under section 501(c)(15)(A) of the Code, an insurance company, other than a life insurance company, was tax-exempt if its net written premiums (or, if greater, its direct written premiums) did not exceed \$350,000.

Under the Pension Funding Equity Act of 2004, P.L. 108-218, (hereafter "Act"), section 501(c)(15) of the Code was amended by section 206 of the Act, which became effective for taxable years beginning after December 31, 2003. Specifically, the Act amended section 501(c)(15) of the Code to provide for continued tax-exemption of: (A) Insurance companies (as defined in section 816(a)) other than life insurers (including inter-insurers and reciprocal underwriters) if -(i)(I) the gross receipts for the taxable year do not exceed \$600,000, and (II) more than 50% percent of such gross receipts consist of premiums.

Under section 206(e)(2) of the Act, a special transition rule was established with respect to certain insurance companies in receivership or liquidation. Section 206(e)(2) provides that, "in the case of a company or association which (A) for the taxable year which includes April 1, 2004, meets the requirements of section 501(c)(15)(A) of the Internal Revenue Code of 1986, as in effect for the last taxable year beginning before January 1, , and (B) on April 1, , is in a receivership, liquidation, or similar proceeding under the supervision of a State court, the amendments made by this section shall apply to taxable years beginning after the earlier of the date such proceeding ends or December 31, 2007."

The issue to be determined is whether Insurance Company meets the new requirements under section 501(c)(15) of the Code, as amended by the Act, and qualifies for recognition of exemption for any period. You represent that Insurance Company is an insurance company (as defined in section 816(a) of the Code) other than a life insurance company. You further represent that from Date 2, Insurance Company was in receivership and did not issue any insurance contracts or collect any premiums. Because more than 50% percent of Insurance Company's gross receipts did not consist of premiums, Insurance Company does not meet the new requirements of section 501(c)(15)(A), as amended by the Act, for its taxable years beginning after December 31, 2003.

Because Insurance Company does not meet section 501(c)(15)(A) of the Code, the second issue to be determined is whether Insurance Company meets the requirements of the transition rule under section 206(e)(2)(A) and (B) of the Act. The transition rule applies to insurance companies in receivership or liquidation and permits them to qualify for tax exemption. The determination of whether an insurance company qualifies under the transition rule is a two-step process.

The first step under the two-step transition rule is to determine whether, for the taxable year which includes April 1, 2004, Insurance Company meets the requirements of section 501(c)(15)(A) of the Code as in effect for the last taxable year beginning before January 1, 2004. See Section 206(e)(2)(A) of the Act. In order to meet the statutory language of section 501(c)(15) of the Code, as in effect before January 1, 2004, Insurance Company must be an insurance company other than life insurer, and its net written premiums (or, if greater, direct written premiums) must not exceed \$350,000. Pursuant to the record, Insurance Company was at all times a property and casualty insurer and not a life insurer. You represent that on Date 2, which is prior to April 1, 2004, Insurance Company went into receivership, and subsequently thereafter went into liquidation, with Insurance Company not having any net or direct written premiums exceeding \$350,000. Therefore, Insurance Company satisfies section 206(e)(2)(A) of the Act, the first step of the two-step transition rule under section 206(e)(2) of the Act.

The second step under the two-step transition rule is to determine whether on April 1, 2004, Insurance Company was in receivership, liquidation, or a similar proceeding under the supervision of a State court. See Section 206(e)(2)(B) of the Act. You represent that on Date 2, Insurance Company was placed in receivership by State Court and had remained in receivership up to and including April 1, 2004. Therefore, Insurance Company satisfies section 206(e)(2)(B) of the Act, the second and last step of the two-step transition rule under section 206(e)(2) of the Act.

Insurance Company has established that it meets both requirements of section 206(e)(2) of the Act, and as a result, Insurance Company qualifies for the transition rule for companies in receivership or liquidation under the Act. Therefore, the Act's amendments to section 501(c)(15) of the Code do not apply to Insurance Company until taxable years beginning after the earlier of the date Insurance Company's liquidation ends or December 31, 2007.

Accordingly, Insurance Company continues to qualify as exempt from federal income tax under section 501(a) of the Code as an organization described in section 501(c)(15) until the applicable date in the transitional rule, that is December 31, 2007.

In addition to certain clarifications being made, the requirements for qualification as an insurance company under 501(c)(15) of the Code, as amended by section 206 of the Act, have changed. Insurance Company and Receiver may rely on this ruling only during the period in which the transition rule for companies in receivership or liquidation is in effect under section 206(e)(2).

This ruling is based on the understanding that there will be no material changes in the facts and representations upon which it is based. Except as we have ruled herein, we express no opinion as to the tax consequences of the transactions under other sections of the Code and Income Tax Regulations.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, Notice of Intention to Disclose. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

This ruling is based on the facts as they were presented and on the understanding that there will be no material changes in these facts. This ruling does not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described. Because it could help resolved questions concerning your federal income tax status, this ruling should be kept in your permanent records.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

In accordance with the Power of Attorney currently on file with the Internal Revenue Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

Robert C. Harper, Jr.
Manager, Exempt Organizations
Technical Group 3

Enclosure
Notice 437