



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

Number: **201450028**
Release Date: 12/12/2014

Date: September 16, 2014

Contact Person:

Identification Number:

Telephone Number:

Taxpayer Identification Number:

U.I.L.: 501.09-00

Legend:

Trust =
Category P Employees =
Category C Employees =
x =

Dear _____ :

We have considered your ruling request dated October 3, 2013, concerning the tax consequences under § 501(c)(9) of the Internal Revenue Code of the proposed transfer of \$x from you to Trust.

Facts:

Trust was established to provide benefits to active and recently retired Category P Employees. You were established to provide benefits to inactive vested Category P Employees, retired Category P Employees, and active and inactive vested Category C Employees. Both you and Trust were recognized by the Internal Revenue Service as organizations described as voluntary employees' beneficiary associations ("VEBAs") under § 501(c)(9).

You have represented that all of your assets and the assets in Trust were contributed by the employers of Category P and C Employees, and no contributions were made by a beneficiary of either you or Trust. You ceased to have an obligation to provide benefits for inactive vested and retired Category P Employees, and this obligation was placed on Trust. As a consequence, the only benefit provided by you is life insurance for active and inactive vested Category C Employees. Before this change, the obligation of Trust was limited to providing medical, dental, prescription drug, life insurance and accidental death and dismemberment insurance benefits for active and recently retired Category P Employees. The purpose of the transfer was to consolidate the obligation to provide welfare benefits to active and retired Category P Employees, and only Category P Employees, under a single trust – Trust. Certain of the benefit programs provided through Trust are administered pursuant to a collective bargaining agreement.

You have represented that as a result of the transfer of the obligation to provide welfare benefits for retired Category P Employees from you to Trust, you have assets in excess of your needs for the foreseeable future. You propose to transfer \$x of these excess assets to Trust. You have also represented that if this proposed transfer of assets is approved and implemented, no beneficiary will suffer a decrease in the quality or quantity of benefits as a result.

Ruling Requested:

The proposed transfer of assets will not adversely affect your tax-exempt status under § 501(c)(9).

Law:

Section 501(a) of the Code exempts from federal income tax those organizations described in § 501(c).

Section 501(c)(9) describes VEBAs as providing for the payment of life, sick, accident, or other benefits to the members of such associations or their dependents or designated beneficiaries, if no part of the net earnings of such association inures (other than through such payments) to the benefit of any private shareholder or individual.

Treas. Reg. § 1.501(c)(9)-1 summarizes the requirements to be met in order to qualify as a tax exempt organization described in § 501(c)(9) as follows:

- (a) The organization is an employees' organization;
- (b) Membership in the organization is voluntary;
- (c) The organization provides for the payment of life, sick, accident, or other benefits to its members or their dependents or designated beneficiaries and substantially all of its operations are in furtherance of providing such benefits; and,
- (d) No part of the net earnings of the organization inures, other than by payment of the benefits referred to in in paragraph (c) of this section, to the benefit of any private shareholder or individual.

Treas. Reg. § 1.501(c)(9)-4(a) restates the prohibited inurement rule contained in I.R.C. § 501(c)(9) and provides that no part of the net earnings of a VEBA may inure to the benefit of any private shareholder or individual other than through the payment of permissible benefits (benefits described in Treas. Reg. § 1.501(c)(9)-3). Whether prohibited inurement has occurred is a question to be determined with regard to all the facts and circumstances.

Analysis:

Section 1.501(c)(9)-1 of the Treasury Regulations summarizes the four requirements for an organization to meet in order to qualify as a tax-exempt organization under § 501(a) and to be described as a VEBA under § 501(c)(9). These four requirements are as follows: (a) The organization is an employees' organization; (b) Membership in the organization is voluntary; (c) The organization provides for the payment of life, sick, accident, or other benefits to its

members or their dependents or designated beneficiaries and substantially all of its operations are in furtherance of providing such benefits; and, (d) No part of the net earnings of the organization inures, other than by payment of the benefits referred to in paragraph (c) of this section, to the benefit of any private shareholder or individual. The proposed transfer described above does not violate any of these four requirements.

Both you and Trust have been recognized as exempt under § 501(a) because you both meet the requirements of VEBAs as described under § 501(c)(9). The obligation to provide life insurance benefits for inactive vested Category P Employees or medical benefits for retired Category P Employees was transferred from you to Trust. Also as a result of this transfer, you are "over funded" by \$x and Trust is "under funded" by \$x. The proposed transaction is to transfer \$x from you to Trust to be used to provide welfare benefits to active and retired Category P Employees. Although you will now only provide benefits to Category C Employees and Trust will now only provide benefits to Category P Employees, you have represented that no beneficiary of either you or Trust will suffer a decrease in the quality or quantity of benefits as a result of this transaction. As such, both you and Trust will continue to provide for the payment of life, sick, accident, or other benefits to members or their dependents or designated beneficiaries and substantially all of both your operations are in furtherance of providing such benefits.

Conclusion:

Based on the foregoing and the representations provided, the proposed transfer of assets will not adversely affect your tax-exempt status under § 501(c)(9).

This ruling will be made available for public inspection under § 6110 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) provides that it may not be used or cited by others as precedent. Specifically, this ruling does not address tax consequences with respect to any employer who contributed to you.

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 resolve 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,

Michael Seto
Manager, EO Technical

Enclosure
Notice 437