

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

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CC:CORP:2

PLR-121522-21

Date:

April 15, 2022

Legend

Taxpayer =

Policyholders =

Legislation =

State A =

Year 1 =

Year 2 =

Year 3 =

Year 4 =

a =

b =

c =

d =

e =

Dear :

This letter responds to your authorized representatives' letter dated October 14, 2021, as supplemented by subsequent information and documentation. In that letter, you requested rulings under sections 832 and 1001 of the Internal Revenue Code (the "Code"). The material information submitted in that letter and subsequent correspondence is summarized below.

The rulings contained in this letter are based upon facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This Office has not verified any of the material submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Facts

Taxpayer is a nonprofit, nonstock corporation that is currently exempt from federal income taxation under section 501(c)(27). Taxpayer is a State A-sponsored workers' compensation organization. Taxpayer's articles of incorporation prohibit it from issuing capital stock or converting to a mutual or stock company. State A law authorizes Taxpayer to pay dividends to its Policyholders, subject to the approval of State A's insurance commissioner. State A law prohibits Taxpayer from liquidating. Each Policyholder's policy with Taxpayer is for a term of a months or less.

In Year 1, State A passed Legislation to privatize Taxpayer to a taxable workers' compensation organization. Prior to Legislation, the State A governor appointed all b members of the board of directors. Pursuant to Legislation, Policyholders were granted the right to eventually appoint c of Taxpayer's b directors. The voting rights would be phased in gradually, from Year 2 through Year 4, and the governor of State A would retain the right to appoint d of the board members. Accordingly, Policyholders appointed d board members in Year 2, appointed another d board members in Year 3, and will appoint another e board members in Year 4.

Taxpayer has represented that it will cease to be exempt from federal income taxation under section 501(c)(27) when the Policyholders appoint the majority (*i.e.*, c of b board members) of Taxpayer's board of directors (the "Status Change").

Representation

- (a) After the Status Change, Taxpayer will be an insurance company other than a life insurance company and will compute its taxable income under section 832.

Rulings

- (1) The Status Change will not be treated as a sale or exchange. Accordingly, no gain or loss will be realized under section 1001 as a result of the Status Change.
- (2) No reinsurance transaction will be deemed to occur solely as a result of the Status Change.
- (3) Taxpayer's premiums earned under section 832(b)(4) for the short period ending the final day of Year 4 will be determined in relevant part by adding 80 percent of the unearned premiums on outstanding business immediately before the Status Change, and deducting 80 percent of the unearned premiums on outstanding business at the end of Year 4, in each case relating to gross premiums written for any year.
- (4) Taxpayer's losses incurred under section 832(b)(5) for the short period ending the final day of Year 4 will be determined in relevant part by adding all discounted unpaid losses (as defined in section 846 of the Code) outstanding at the end of Year 4 and deducting all discounted unpaid losses outstanding immediately before the Status Change, in each case relating to all accident years.
- (5) Taxpayer will determine losses paid under section 832(b)(5)(A)(i) taking into account losses paid relating to all accident years.

Caveats

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the proposed transaction under any provision of the Code and regulations or the tax treatment of any condition existing at the time of, or effects resulting from, the proposed transaction that is not specifically covered by the above rulings. Specifically, no opinion is expressed as to Taxpayer's continued qualification as a tax-exempt organization described in section 501(c)(27), nor is any opinion expressed regarding the termination date of Taxpayer's section 501(c)(27) status.

Procedural Statements

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

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by

attaching a statement to their return that provides the date and control number of the letter ruling.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Douglas C. Bates
Branch Chief, Branch 4
Office of Associate Chief Counsel (Corporate)

cc: