

**Internal Revenue Service  
memorandum**

FREV-110254-98

date: Br6:CEWachsstock  
JUL 24 1998

to: Director, Exempt Organizations Division CP:E:EO

from: Assistant Chief, Branch 6  
Office of Associate Chief Counsel CC:EBEO:6  
(Employee Benefits and Exempt Organizations)

subject: [REDACTED]

This is in response to your request that we consider whether [REDACTED] provides commercial-type insurance as a substantial part of its activities and is therefore precluded from exempt status by section 501(m) of the Internal Revenue Code. [REDACTED]

[REDACTED] You have also asked about the application of section 833 of the Code. We have referred that request to Financial Institutions and Products, CC:FI&P:4, and expect that you will hear from them directly.

[REDACTED] is a nonprofit "public charity" under [REDACTED] law but is not exempt from federal tax because it provides commercial-type insurance within the meaning of section 501(m). The organization currently operates a health maintenance organization ("HMO"), traditional indemnity insurance plans, preferred provider organization plans, and third party administrative services for employer self-insured health benefit plans. [REDACTED] proposes to restructure by transferring some of its business activities into separate organizations. A new holding company, [REDACTED] will provide oversight and control of all the organizations in the new system. [REDACTED] originally applied for recognition of exempt status under section 501(c)(3), but withdrew that application and instead requested exemption under section 501(c)(4). You have not asked us to address this request because you believe its outcome depends upon [REDACTED] status.

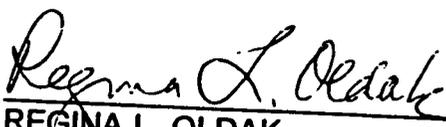
[REDACTED] proposes to transfer its HMO activities to a new subsidiary, [REDACTED] which has applied for exemption under section 501(c)(4). [REDACTED]

[REDACTED] has not established that it will operate in a manner that will shift substantial risk. Accordingly, the section 501(m)(3)(B) exception to section 501(m)(1) does not apply in this case.

PMTA: 01535

We would appreciate the opportunity to consider your proposed initial adverse determination letter.

Please contact Charles Wachsstock at 622-6080 if you have any questions.

  
REGINA L. OLDAK

**Attachment:**

Admin. Files

**cc:**

Beth Purcell

Kay Hossofsky