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DIST. DIR. OF INT. REV.
BROOKLYN, N.Y. 11201
EP-EO
Review Staff

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Date 4/19/88

Surname [REDACTED]

MAR 9 1988

TO: [REDACTED]

Dear Applicant:

This refers to your application for recognition of exemption from Federal income tax under section 501(c)(12) of the Internal Revenue Code.

You were incorporated on [REDACTED] under the provisions of the General Laws, Chapter [REDACTED], of [REDACTED]. According to your articles of organization, the purpose for which you are formed is as follows:

To arrange for and otherwise facilitate the delivery of health care services to health maintenance organization (HMO) enrollees through contractual arrangements with duly licensed physicians and other health care professionals and RNs; and to solicit and accept grants, gifts, devises, and/or bequests of money, securities, and real and personal property in furtherance of the purposes of the corporation.

Your membership consists of physicians and service patients who are members of [REDACTED]. All billings for the physicians' services are made by you to [REDACTED] and upon remittance by [REDACTED], funds are paid out to your member physicians at rates authorized by agreement with [REDACTED]. You state that you were set up to allow for an economic and practical method of billing [REDACTED] for services rendered as opposed to having each physician bill directly. You do not collect any fee for this service but act as a conduit to allow payments to be made to one centralized billing location.

In response to item 3 of Schedule C of your application, we indicated that you are claiming exemption as a "like organization" pursuant to section 501(c)(12) of the Code. However, you did not explain how you are similar to one of the organizations specified in section 501(c)(12).

Your income and expense statements for your tax years ended [REDACTED] and [REDACTED] indicate that your receipts from billings made to [REDACTED] comprised [REDACTED] of your income in each of those periods.

Section 501(c)(12) of the Code provides exemption from federal income tax for benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations; but only if 35 percent or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.

Rev. Rul. 55-201, 1955-2 C.B. 170 includes the following discussion of the concept of "like organizations" within the meaning of section 501(c)(12) of the Code:

In New Jersey Automobile Club v. United States, 131 Fed. Supp. 257 (1955), certiorari denied, 355 U.S. 964 (1958), it was held that an automobile club was not exempt from Federal income tax under section 501(10) of the Internal Revenue Code of 1939, which corresponds to section 501(c)(12) of the 1954 Code. The court stated that it felt Congress intended to exempt organizations which were like "benevolent life insurance associations of a purely local character, or like 'mutual ditch or irrigation companies,' or like 'mutual or cooperative telephone companies,' and not merely organizations which were like the distilled essence of these three relative noncoverables.

The court further stated, "that an automobile club is too well known and too important for us to presume that the Congress could set forth in detail a variety of specific organizations entitled to exemption under the 12 subsections of section 501 and intend that an automobile club should be included in the general expression 'like organizations' contained in subsection (10)."

In the case of Consumers Credit Rural Electric Cooperative Corporation v. Commissioner, 37 T.C. 135 (1961), affirmed by the United States Court of Appeals for the Sixth Circuit on July 2, 1963, it was held that an organization formed by exempt rural electric cooperatives to finance purchases of electrical, water, or plumbing appliances or systems by customers of the cooperatives, was not exempt as a "like organization" under section 501(c)(12) of the Code. The fact that the member cooperatives qualified under the statute did not automatically confer tax exemption upon the organization which, in order to obtain tax exemption, also had to qualify under the statute.

In view of the above decisions, it is clear that the term "like organizations" as used in the statute is limited by the types of organizations specified in the statute, and is applicable only to those actual or cooperative organizations which are engaged in activities

similar in nature to the benevolent insurance or public utility type of service or business customarily conducted by the specified organizations.

As discussed above, you were established for the sole purpose of utilizing [redacted] for services rendered by your member physicians to patients and are exempt from [redacted]. This activity is clearly not similar in nature to the benevolent insurance or public utility type of service or business customarily conducted by the organizations specified in section 501(c)(12) of the Code. Accordingly, we conclude that you cannot be classified as a "like organization" pursuant to section 501(c)(12). Furthermore, we note that even if you were considered to be such an organization, you failed to meet the 85 percent member income test required for section 501(c)(12) exemption during tax years ended [redacted]. Therefore, we rule that you are not entitled to recognition of exemption from federal income tax under section 501(c)(12).

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your Tax District Director in Brooklyn, New York. Thereafter, any questions about your federal income tax status should be addressed to that office.

Sincerely yours,

(signed) [redacted]
[redacted]

Chief, Exempt Organizations
Brooklyn Branch

cc: [redacted]
[redacted]