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

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Date:
AUG 15, 2002

UIL: 4976.01-00

Contact Person:

Identification Number:

Telephone Number:

T:EO:B2

Employer Identification Number:

LEGEND: M =
N =

Dear Sir or Madam:

This is in reply to the letter of December 20, 2000, as modified by the letter of May 23, 2002, concerning N's use of certain excess funds to provide premium holidays to its members.

M is a trade group and has been recognized as exempt under section 501(c)(6) of the Internal Revenue Code. M offers various services to its members including permitting them to provide certain health and welfare benefits to their employees through N.

N is a welfare benefit fund within the meaning of section 419 of the Code and has never been recognized as exempt under section 501(c)(9). It is a multiple employer trust established to provide individual and group health, dental, life, disability and other similar insurance policies to the employees of M's members. It appears that the employer members of M, in many cases, pay the entire amount of premiums due on behalf of their employees; however, in other cases there may be a certain amount of employee contributions. N is governed by a board of trustees who are appointed by the Management Committee of M.

N contracts with an insurance provider to provide for the payment of medical and dental benefits. Both employer and employee premiums are sent directly to the insurer. N provides some administrative services for the health care plan and also provides multiple administrative services including collection of premiums for the life and disability insurance programs.

The submitted information indicates that there may be times when N has more funds than are needed to satisfy the required premium payments for the insurance provided to the employees of M's members. The trustees of N have developed a plan under which it will, from time to time as determined by the trustees or other persons designated to administer N provide a premium holiday for, at least some, of the insurance programs provided to the participating employers and their covered employees.

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Because the insurance programs vary as to the amount, if any, of employee contributions, N proposes to notify each eligible plan participant, employed at the time a premium holiday is declared, that he or she will be receiving the benefit of the premium holiday. Such notice will be individually mailed to the last known address of each such participant and will explain the nature of and reasons for the premium holiday. The notice will describe the instructions that the Trustees will have given to the participating member organizations with regard to their duty to pass-through the benefit of the premium holiday to their participating employees.

As stated in the December 20, 2000, submission, and as modified by the letter of May 23, 2002, rulings have been requested that:

1. The payment of medical and dental insurance premiums by N on behalf of participating member organizations will not result in a prohibited inurement of income for the benefit of a shareholder or individuals which would jeopardize M's exempt status under section 501(c)(6) of the Code.

2. The payment of medical and dental insurance premiums by N on behalf of participating member employers does not result in the imposition of the Section 4976 excise tax.

Section 419(e) of the Code, defines a "welfare benefit fund" as including any trust, corporation, or other organization not exempt from tax, which is part of a plan of the employer and through which the employer provides welfare benefits to employees or their beneficiaries.

Section 501(c)(6) of the Code provides, in part, for the exemption from Federal income tax of business leagues, chambers of commerce, real-estate boards, and boards of trade, not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 4976(a) of the Code imposes an excise tax on an employer equal to 100 percent of any disqualified benefit provided by an employer-maintained welfare benefit fund.

Section 4976(b)(1)(C) of the Code defines a "disqualified benefit" to include any portion of a welfare benefit fund reverting to the benefit of the employer.

Rev. Rul. 81-60, 1981-1 C.B. 335 holds that the refund of excess dues to members of an exempt agricultural organization in the same proportion as the dues are paid does not constitute inurement and does not disqualify the organization from exemption.

M has been recognized as exempt under section 501(c)(6) of the Code and is subject to a prohibition against its earnings inuring to the benefit of its members. M appoints the members of the Board of Trustees of N. Therefore, any transaction undertaken by N can be attributable to M. N is a welfare benefit fund and subject to the provisions of section 4976 of the Code. The reversion of funds to the benefit of an employer is a disqualifying benefit for the purposes of

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section 4946(a).

The provision of a premium holiday by N is a continuation of its program of providing insurance benefits for its members. Presuming that this activity is carried on in a manner which treats participants in N equally, an act of inurement such as could jeopardize M's section 501(c)(6) tax exempt status is not present. See the holding in Rev. Rul. 81-60.

N declaring a premium holiday is merely continuing to provide for the payment of benefits to its participating members. By making the employees of the members of M aware of the premium holiday, N has taken reasonable measures to ensure that the employer members of M will not divert the refund of funds for their own private purposes.

Based on the submitted information we rule that:

1. The payment of medical and dental insurance premiums by N on behalf of participating member organizations will not result in a prohibited inurement of income for the benefit of a shareholder or individuals which would jeopardize M's exempt status under section 501(c)(6) of the Code.

2. The payment of medical and dental insurance premiums by N on behalf of participating member employers does not result in the imposition of the Section 4976 excise tax.

Except as specifically ruled upon above, no opinion is expressed concerning the federal income tax consequences of the transactions described above under any other provision of the Code. This letter is based on the presumptions that the premium holiday will treat all participating members equally and that the employer members of M will take no actions to cause its participating employees not to benefit from the premium holiday.

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 as precedent.

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. For other matters, including questions concerning reporting requirements, please contact the at

Sincerely yours,

/S/

Joseph Chasin
Acting Manager,
Exempt Organizations
Technical Group 2