JUN 30 1988

[redacted]

9/6/88

[redacted]

Surname [redacted]

Dear Taxpayer:

This is in response to your application for recognition of exemption as an organization described in section 501(c)(4) of the Internal Revenue Code of 1986.

The information you submitted discloses that you were created under the laws of the State of [redacted] on [redacted]. You were organized principally to, "develop, maintain and publish coding systems capable of being used with current and future clinical nomenclatures and classification systems for health care use." You wish to develop a new system for classifying diseases and their treatment. You feel that the present systems are inaccurate because they are difficult to use and they are not detailed enough. You plan to establish a system that is more up to date and more detailed. You will offer this system to subscribers in a telephone book format.

You were initially sponsored by a number of organizations exempt from federal income tax under section 501(c)(3) and 501(c)(6) of the Code. Each sponsor pays a sponsorship fee and designates one of its members to sit on your Board of Directors. The sponsored members of the Board of Directors can elect additional at-large Board members. The Sponsor is required to establish an "Expert Panel" to advise you on matters of clinical nomenclature, coding and classification. The work of each "Expert Panel" will belong to its parent organization but you will receive a royalty free license to any coding developed by the panels.

The only activity you have engaged in is to conduct a number of meetings with your sponsors. At your last meeting on [redacted], you decided that establishing your coding system would not be feasible. You found the cost to be prohibitive. Further, you found that the ultimate users of the system, the government and insurance companies, wanted a system that used fewer classifications rather than the more detailed system you envisioned. You decided to suspend your activities but maintain your corporate status in the event you wish to pursue your activities at a later date. All but one of your sponsors have withdrawn sponsorship.

"This ruling is applicable to the taxpayer named herein. It must not be relied on, used, or cited as a precedent by Internal Revenue Service personnel in the disposition of other cases."

[redacted]

Section 501(c)(4) of the Code provides, in part, for the exemption of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is exempt under section 501(c)(4) if it is primarily engaged in promoting in some way the common good and general welfare of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

In Rev. Rul. 54-394, 1954-2 C.B. 131 an organization which provided television reception to its members on a cooperative basis was not exempt as a social welfare organization. Even though service was provided in an area of poor television reception, the fact that the organization operated on a fee for services basis demonstrated that it was not organized to benefit the community as a whole.

This should be contrasted with Rev. Rul. 67-177, 1967-2 C.B. 1[illegible], in which an organization providing television reception was found to be exempt under section 501(c)(4). In that case the organization retransmitted television signals so that any member of the community could receive enhanced reception. The key distinction between the two revenue rulings is the nature of the benefit flowing from the two organizations' activities. In Rev. Rul. 54-394 the organization has circumscribed its benefits to those who would pay for its services thus not providing a service that benefitted the community. In Rev. Rul. 67-177 the organization's activities flowed to members of the community whether or not they had contributed to its support.

We have reviewed your activities and we have determined that you are not exempt under section 501(c)(4) because you are operated in a manner similar to the organization described in Rev. Rul. 54-394, 1954-2 C.B. 131. You were organized to design a system to enhance the current system of coding medical diagnoses and their treatment. Instead of making the benefit of your new system available to the community, you chose to restrict access to only those who pay for your services. Evidence of the commercial nature of your activity can be found in the fact that you have abandoned this project because the cost proved to be prohibitive and the potential customers, the government and insurance companies, were not interested in the system you intended to create.

In addition, even if you could show that you were performing an exempt activity at one time, you have not engaged in any activity since [redacted]. Section 501(c)(4) requires that an organization be operated exclusively for the promotion of social welfare. You have not operated, therefore you are not described in section 501(c)(4).

[redacted]

In summation, we find that the activities you have engaged in are not described in section 501(c)(4) because they benefit only those paying for your services. For the period from [redacted], you are not exempt because you have not operated exclusively for the promotion of social welfare. Accordingly, you do not qualify for recognition of exemption from federal income tax under section 501(c)(4) of the Internal Revenue Code.

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 principal officers, must be submitted in duplicate within 30 days from the date of this letter. You also have a right to a 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 principal officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practice Procedures.

If we do not hear from you within 30 days, this ruling will become final and copies of it will be forwarded to the District Director, Chicago, Ill. Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to that office.

Additional letters with respect to this case should be sent to: E:EO:R:2-5, Room 6127, Internal Revenue Service, 1111 Constitution Avenue, N.W., Washington, D.C. 20224.

Sincerely yours,

[redacted]

Chief, Exempt Organizations
Rulings Branch 2

cc: [redacted]

[redacted]