

Organizations Exempt Under Section 501(c)(15)

Notice 2003-35

The purpose of this notice is to remind taxpayers that an entity must be an insurance company for federal income tax purposes in order to qualify as exempt from federal income tax as an organization described in § 501(c)(15) of the Internal Revenue Code.

Section 501(a) provides that an organization described in § 501(c) shall be exempt from federal income tax. Section 501(c)(15) provides that an insurance company (other than a life insurance company) is tax-exempt if its net written premiums (or, if greater, direct written premiums) for

the taxable year do not exceed \$350,000. For purposes of this annual test, the company is treated as receiving during the taxable year premiums received during the same year by all other companies within the same controlled group, as defined in § 831(b)(2)(B)(ii).

For an entity to qualify as an insurance company, it must issue insurance contracts or reinsure risks underwritten by insurance companies as its primary and predominant business activity during the taxable year. For a discussion of the analysis applicable to evaluating whether an entity qualifies as an insurance company, see Notice 2003-34, 2003-23 I.R.B. 990 (June 9, 2003) and Notice 2002-70, 2002-44 I.R.B. 765 (November 4, 2002).

The Service is scrutinizing the tax-exempt status of entities claiming to be described in § 501(c)(15) and will challenge the exemption of any entity that does not qualify as an insurance company. The Service will challenge the exemption of the entity, regardless of whether the exemption is claimed pursuant to an existing determination letter or on a return filed with the Service.

Taxpayers claiming exemption pursuant to § 501(c)(15) should also consider whether they are engaged in arrangements described in Notice 2002-70 or substantially similar thereto.

DRAFTING INFORMATION

The principal author of this notice is Lee T. Phaup, TE/GE Division, Exempt Organizations. For further information concerning this notice, contact Ms. Phaup at (202) 283-8935 (not a toll-free call).