



## Private Letter Ruling 04-001

### Redacted Version

June 30, 2004

A Private Letter Ruling concerning whether a health maintenance organization is exempt from Louisiana corporation income tax and Louisiana corporation franchise tax in accordance with La. Rev. Stat. Ann. § 22:2025(A) has been requested.

#### Facts:

The following is a summary of the facts as supplied by the taxpayer requesting the Private Letter Ruling (Health Maintenance Organization A):

- Health Maintenance Organization A was incorporated with the stated purpose of arranging, managing, and furnishing health care services through a health maintenance organization.
- Health Maintenance Organization A was organized and is domiciled in Louisiana.
- According to its Articles of Incorporation, Health Maintenance Organization A was formed:
  - To arrange, manage, and furnish health care services through providers who are under contract with or employed by this corporation in its capacity as a licensed health maintenance organization, pursuant to the Louisiana Health Maintenance Organization Act, and to contract with self insured businesses to provide such services as a preferred provider organization.
- As a health maintenance organization, Health Maintenance Organization A provides comprehensive medical services to employer groups, primarily through contractual arrangements with a network of hospitals and physicians located in northern Louisiana.
- Some of the benefits that Health Maintenance Organization A provides to its members include: medical benefits, maternity services, mental health services, outpatient services, inpatient services, prescription drugs, and ambulance services.

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- Health Maintenance Organization A received its Certificate of Authority to act as a health maintenance organization from the Commissioner of Insurance.
- Over the past five years, the vast majority of Health Maintenance Organization A's total revenues were brought about through the provision of health maintenance services to its members.
- Health Maintenance Organization A pays the Louisiana annual premiums tax each year as a health maintenance organization.

**Discussion:**

La. Rev. Stat. Ann. § 22:2002(7) defines “health maintenance organization” to include:

any corporation organized and domiciled in this state which undertakes to provide or arrange for the provision of basic health care services to enrollees in return for a prepaid charge. The health maintenance organization may also provide or arrange for the provision of health care services to enrollees on a prepayment or other financial basis.

La. Rev. Stat. Ann. § 22:2025(A) provides that:

In lieu of the state income tax and the corporate franchise tax levied in Title 47 of the Louisiana Revised Statutes of 1950, every health maintenance organization authorized and certified to engage in the business of issuing contracts or other evidences or similar forms of coverage to enrollees for health care services or prepaid medical services in this state, including Louisiana partnerships authorized under R.S. 22:2004(B), shall pay an annual license tax for the year 1986, and each subsequent year, on the gross amount of its receipts from contracts and other evidences of coverage at the same rate as the license tax on life insurance companies provided in R.S. 22:1062 and R.S. 22:1067.

**Ruling:**

Health Maintenance Organization A was organized and is domiciled in Louisiana. Health Maintenance Organization A provides comprehensive medical services to its members. In addition, Health Maintenance Organization A received its Certificate of Authority to operate as a health maintenance organization from the Commissioner of Insurance. Finally, over the past five years, the vast majority of Health Maintenance Organization A's total revenues were brought about through the provision of health maintenance services to its members. As such, Health Maintenance Organization A may properly be considered a health maintenance organization under the definition of La. Rev. Stat. Ann. § 22:2002(7).

Since Health Maintenance Organization A is a health maintenance organization, under La. Rev. Stat. Ann. § 2025(A) it is required to pay the annual license tax in lieu of the Louisiana corporation income tax and Louisiana corporation franchise tax. As such, Health Maintenance Organization A is exempt from Louisiana corporation income tax and Louisiana corporation franchise tax in accordance with La. Rev. Stat. Ann. 22:2025(A)

Sincerely,

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Cynthia Bridges  
Secretary

By: William (Mac) E. Little  
Attorney  
Policy Services Division

A Private Letter Ruling (PLR) is issued under the authority of LAC 61:III.101( C ). A PLR provides guidance to a specific taxpayer at the taxpayer's request. It is a written statement issued to apply principles of law to a specific set of facts or a particular tax situation and is limited to the matters specifically addressed. A PLR does not have the force and effect of law and may not be used or cited as precedent. A PLR is binding on the Department only as to the taxpayer making the request and only if the facts provided with the request were truthful and complete and the transaction was carried out as proposed. The Department's position concerning the particular tax situation addressed remains in effect for the requesting taxpayer until a subsequent declaratory ruling, rule, court case, or statute supersedes it.