



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
Box 2508
Cincinnati, OH 45201

Date:
02/20/2024
Employer ID number:

Form you must file:

Tax years:
All
Person to contact:

Release Number: 202420028
Release Date: 5/17/2024
UIL Code: 501.06-00,
501.06-01

Dear :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(6). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

You must file the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit www.irs.gov.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437
Redacted Letter 4034
Redacted Letter 4038



Department of the Treasury
Internal Revenue Service
PO Box 2508
Cincinnati, OH 45201

Date: December 27, 2023

Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B= Date

C = State

x dollars = Amount

y dollars = Amount

z dollars = Amount

UIL

501.06-00

501.06-01

Dear _____ :

We considered your application for recognition of exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a). We determined that you don't qualify for exemption under IRC Section 501(c)(6). This letter explains the reasons for our conclusion. Please keep it for your records.

Issues

Do you qualify for exemption under Internal Revenue Code Section 501(c)(6)? No, for the reasons stated below

Facts

You were incorporated on B in C. Your Articles of Incorporation state your primary goal is to provide services to your members. They also state your objectives are to:

- Promote venture capital and angel investing in C,
- Foster increased education and exposure to entrepreneurship and investing in the venture capital asset class, and
- Increase the diversity of participants in the venture capital and entrepreneurship ecosystems in C.

Your bylaws indicate you will identify entrepreneurs and startup entities that are actively seeking additional capital and whose business models suggest that these entities are capable of generating above average investment returns to those who provide investment funding. They further state that you will act collectively in terms of deal sourcing, undertaking due diligence on any target startup entity, negotiating terms of investment thereby in any startup entity, investment vehicle creation, all towards the goal of nourishing a robust investing organization notwithstanding the fact that your members will act independently in connection with any investment decisions. The bylaws further state that your members represent and warrant that they acknowledge

and agree that all capital investments made in any startup entity identified by you will be undertaken by the undersigned member(s) via a single purpose limited liability company or other entity identified by your Managing Director which will furthermore be funded by capital contributions made to the single purpose limited liability company by your members. The funds contributed to and utilized by the single purpose limited liability company will not be co-mingled with your funds.

You explained that % of your activities consist of identifying companies and facilitating due diligence. This consists of:

- Collaborating with entrepreneurial service organizations, angel groups, and venture capital firms to identify early-stage tech companies seeking potential investment from angel investors. Your members also identify early-stage tech companies seeking investors. You explained that start-up companies submit their interest form through your website. This information is reviewed. Most companies are invited to meet with your due diligence team members to learn more about you and share additional information about their company.
- Facilitating due diligence and analysis of early-stage companies seeking potential investment from angel investors in conjunction with members. This may include meeting with the company's founder(s) several times, reviewing the company's relevant documents, and researching market potential. Some of the materials evaluated as a part of the initial due diligence process include, but are not limited to, financial projections analysis, an assessment of the company's capitalization table, and a review of the prospective company's legal structure.

You stated that % of your activities consist of curating education sessions for your members and founders. This involves varied themes. Subjects may include basic investing, tips on how to screen investment opportunities, an overview of term sheet basics, and a dive into due diligence.

You stated that % of your activities consist of:

- Organizing pitches given by early-stage companies for your members. These companies are seeking investments from your members. The pitch meetings include presentations by start-up companies, questions and answers segments, and internal discussions about members' assessment of the presenting company. Members communicate their interest for presenting companies after each pitch meeting.
- Organizing events for members to network with other members.

You are a membership organization. Members must:

- Show an interest in leveraging inclusion in investment thesis
- Be an accredited investor status or show tangible progress towards accreditation
- Have the ability to invest
- Show commitment to the diversity pledge
- Demonstrate the ability to conduct themselves in a professional manner
- Demonstrate ability to add value to the due diligence process

Membership rights include having:

- An independent decision to invest in early-stage tech companies
- Protection from liability from actions taken by other members, directors, or managing director
- Access to your events, meetings, educational sessions, publications, data repositories, and initiatives

Your annual membership fees are x dollars for individuals, y dollars for families, and z dollars for corporate memberships. You indicated that membership fees are determined based on research of similar groups locally and nationally.

You explained that your services and activities align with your stated purpose and embodies two fundamental characteristics of tax-exempt organizations. First, your services are provided without the intent to generate a profit. Any surplus is used to further your mission. Second, your focus on developing and educating your membership base, inclusive of individuals that have been historically excluded from angel investing, will have a positive impact. You focus on developing and educating a membership for individuals that have been historically excluded from angel investing and you will have a positive impact on underrepresented communities and the entrepreneurial ecosystem as a whole.

Your primary source of revenue is membership fees while expenses include salaries, rent and program expenses.

Law

IRC Section 501(c)(6) exempts from federal income tax business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues (whether or not administering a pension fund for football players), which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Treasury Regulation Section 1.501(c)(6)-1 states a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization, whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated. A stock or commodity exchange which serves its members as a convenience and economy in buying and selling is not a business league, a chamber of commerce, or a board of trade within the meaning of IRC Section 501(c)(6) and is not exempt from tax.

Revenue Ruling 56-65, 1956-1 C.B. 199, holds that a local organization whose principal activity consists of furnishing particular information and specialized individual services to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses is performing particular services, for individual persons. Such organization, therefore, is not entitled to exemption under Section 501(c)(6) of the Code as a business league even though it performs functions which are of benefit to the particular industry and the public generally.

Revenue Ruling 58-224, 1958-1 C.B. 242 holds that an organization, which operates a trade show as its sole or principal activity primarily for the purpose of rendering particular services to individual persons is not entitled to exemption from federal income tax as an organization described as a business league in IRC Section 501(c)(6). If the general purpose of the organization is to promote the interest of trade and increase the facilities of commercial transactions, particularly in connection to the sale of merchandise exemption will not be granted.

The revenue ruling concludes that those activities substantially serve the exhibitors and retailers as a convenience and economy in the conduct of their business by providing selling opportunities for the distributors, and therefore, the organization is providing services for individuals.

Rev. Rul. 68-264, 1968-1 C.B. 264, defined the performance of particular services for individual persons to include an activity that serves as a convenience or economy to members in the operation of their own businesses.

In Produce Exchange Stock Clearing Association v. Helvering, 71 F.2d 142 (2nd Cir. 1934), the Second Circuit held that there was no reason apparent for granting exemption as a business league to a clearing house association that served each member as a convenience or economy in his business by providing facilities for dealings in securities and commodities. The court found that nothing was being done by the organization to advance the interests of the community or to improve the standards or conditions of a particular trade, and that the purpose of the organization was to provide a business economy or convenience for individual traders. In denying the exemption under section 103 of the Revenue Act of 1928 (predecessor statute to IRC Section 501(c)(6)), the court explained that merely serving as a convenience to members is not a characteristic shared by the entities listed in the statute.

In MIB, Inc. v. Commissioner of Internal Revenue, 734 F.2d 71 (1986), an organization whose membership consisted of insurance companies was denied exemption as a business league under IRC Section 501(c)(6) of the Internal Revenue Code. The principal activity carried on by MIB was the maintenance and operation of a computerized system for compiling, storing, and distributing information about applicants for life insurance. MIB argued that its activities created a deterrent to fraud which created benefits to the industry through reduced investigation expenses and reduced losses due to misclassification of applicants. The Court held MIB's activities by their nature consisted of rendering particular services for individual member companies and served to benefit the individual members' businesses. The Court also stated that even though the services produced various indirect and intangible benefits for the industry as a whole, the fact remained that the rendered services were in form and substance particular services for individual member companies.

In Associated Master Barbers & Beauticians v. Commissioner, 69 TC 53, 63 (1977) the court noted that the statute and regulations establish a series of requirements that an organization must meet to be described in IRC Section 501(c)(6). Further, failure to meet one or more of the requirements will cause the organization not to qualify for exemption under Section 501(c)(6). The states requirements are as follows:

- It must be an association of persons having a common business interest
- Its purpose must be to promote that common business interest
- It must not be organized for profit
- It should not be engaged in a regular business of a kind ordinarily conducted for a profit
- Its activities should be directed toward the improvement of business conditions of one or more lines of business as opposed to the performance of particular services for individual persons, and
- Its net earnings, if any, must not inure to the benefit of any private shareholder or individual

Application of law

You are not described in IRC Section 501(c)(6) and Treas. Reg. Section 1.501(c)(6)-1 because the facts show you are not formed to promote the common business interests nor to improve business conditions of a particular industry or trade within a community, but rather you are formed to perform particular services for individuals

which are your members and early-stage tech companies. The Treas. Reg. specifically, “An association engaged in furnishing information to prospective investors to enable them to make sound investments is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated”. In your case, there is no common business interest other than a mutual desire to increase member investment returns. Your activities are a convenience and economy to your members in the conduct of their individual investing.

You are like the organization described in Rev. Rul. 56-65. You are providing specialized services to members who are primarily accredited investors. Your activities are tailored to help your members maximize their individual investments. This precludes exemption under IRC Section 501(c)(6).

You are like the organization in Produce Exchange Stock Clearing Association v. Helvering. You are not primarily advancing the interests of the community or improving the standards of a particular trade, but rather you are providing services to individual persons for their economic convenience. These include conducting due diligence on early-stage tech companies that members may invest in as well as providing a forum for members to meet with these early-stage tech companies. You are also providing early-stage tech companies a forum to find individual investors. Therefore, you do not meet IRC Section 501(c)(6).

You are also similar to the organization described in MIB. You believe that increasing the diversity of participants in the venture capital and ecosystems in C will benefit your community as a whole. Like the organization in the court case, the fact that your community may receive some benefits does not negate the fact that in form and substance, your activities constitute particular services to your members and to early-stage tech companies.

Failure to meet one or more of the essential exemption requirements to meet Section 501(c)(6), which were defined in the court case, Associated Master Barbers, will cause an organization not to qualify for exemption under Section 501(c)(6). You fail the requirement that states, “Its activities should be directed toward the improvement of business conditions of one or more lines of business as opposed to the performance of particular services for individual persons”. You are providing particular services to individual persons. For example, you will undertake due diligence on any early-stage tech company, negotiate terms of investment in these companies, and be instrumental in creating an investment vehicle for your members to invest in these companies. Moreover, you will conduct an analysis of early-stage tech companies seeking potential investment from angel investors. This may include financial projections analysis, an assessment of the company's capitalization table, and a review of the prospective company's legal structure to determine these companies' investment potential. Rev. Rul. 68-264 explains that an activity that serves as a convenience or economy to members in the operation of their own businesses is the performance of particular services for individual persons. Like the organization in Rev. Rul. 58-224, your primary activity is to provide services to members to determine the potential of an investment. The provision of these services serves as a convenience and economy to your members to find lucrative investments as well as to early-stage tech companies to find investors for their companies. Serving your members and early-stage tech companies in this manner is the performance of particular services for individual persons and does not improve the business conditions of one or more lines of business.

Conclusion

Based on the information provided, we conclude that you are not operated as a business league described in IRC Section 501(c)(6). You are primarily providing services to individual persons consisting of your members and

early-stage tech companies. Therefore, you do not meet the requirements for exemption under Section 501(c)(6).

If you agree

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

If you don't agree

You have a right to protest if you don't agree with our proposed adverse determination. To do so, send us a protest within 30 days of the date of this letter. You must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

For an officer, director, trustee, or other official who is authorized to sign for the organization:
Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, Power of Attorney and Declaration of Representative, with us if they haven't already done so. You can find more information about representation in Publication 947, Practice Before the IRS and Power of Attorney.

We'll review your protest statement and decide if you gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information in Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

Where to send your protest

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Mail Stop 6403
PO Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Mail Stop 6403
Cincinnati, OH 45202

You can also fax your protest and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that they received it.

You can get the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676). If you have questions, you can contact the person listed at the top of this letter.

Contacting the Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or if you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 877-777-4778.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements