

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: [REDACTED]

Surname: [REDACTED]

Date 1/8/90

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DO: [REDACTED]

EIN: [REDACTED]

OCT 19 1989

Dear Applicant:

This is in reply to your application for recognition of exemption under section 501(c)(6) of the Internal Revenue Code.

You were established by the [REDACTED] to provide a forum to people interested in the venture process, and to bring together the entrepreneur, inventor, and small businessman with private investors, venture capitalists, corporate executives and others interested in investing in new businesses or ideas. The major vehicle you use to carry out your purposes is a monthly dinner and preceded by a cocktail hour. The format for the dinner is a 45 minute cocktail period, followed by a dinner which includes a keynote address, a 5 minute forum (described below) and a 60 second announcement session. You are a membership organization and guests are only allowed to attend two meetings before having to join.

As stated above one of the features of your dinner program is a 5 minute forum during which four or five individuals, called presenters, put forth their business proposals. Presenters do not need to be members, however the project to be presented is reviewed and approved by the [REDACTED] prior to its presentation. A presenter is required to pay a \$ [REDACTED] presentation fee which includes the cost of dinner.

Other activities you carry on include the publication of a small newsletter which carries information of interest to members but also gives any member the opportunity to advertise needs, services, and opportunities. An information table for literature on deals, meetings, seminars and other information of interest to those attending the dinner is set up at all dinner meetings. Pamphlets, brochures and information packages may be left by any member or guest. It also appears that a computer network is being set up to provide a data base to link up with other venture capital clubs.

In short your purpose is to provide entrepreneurs exposure to investors and capital sources, and provide capital sources exposure to a large variety of businesses in which to invest. You state that this acts to stimulate business growth and improve business conditions in the area.

Re: [REDACTED]

The information you have submitted establishes that your dinner program has been successful in matching investors and entrepreneurs.

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 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as 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. It is an organization of the same general class as a chamber of commerce or board of trade. 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.

Rev. Rul. 59-391, 1959-2 C.B. 151 holds that an organization comprised of individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession which was created to allow the exchange of information on business prospects does not qualify for exemption under section 501(c)(6) of the Code. The basis for this conclusion was, at least in part, the fact that the members of the organization had no common business interest other than a mutual desire to increase their individual sales.

Rev. Rul. 64-315, 1964-2 C.B. 147 holds that an association of merchants whose businesses were all located in one shopping center does not qualify for exemption under section 501(c)(6) where its principle activity is advertising the individual businesses of its members. Such an activity operates as an economy or a convenience to the member and is a particular service within the meaning of section 501(c)(6).

Rev. Rul. 67-295, 1967-2 C.B. 197 holds that an organization of businessmen holding luncheon meetings may qualify for exemption under section 501(c)(6). The key to the determination was that the luncheon meetings were devoted to a discussion, review, and consideration of the various problems in a particular industry.

Rev. Rul. 68-264, 1968-1 C.B. 264 defines a particular service for the purposes of section 501(c)(6) of the Code as an activity that serves as a convenience or an economy to the members of the organization in the operation of their own businesses.

Re: [REDACTED]

Rev. Rul. 70-244, 1970-1 C.B. 132 holds that an organization of business and professional persons of a community, providing luncheon and bar facilities for its members but having no specific program directed to the improvement of business conditions does not qualify for exemption under section 501(c)(6). The purpose of this organization was to bring members and their guests together and to exchange ideas for improving business conditions within the community. The ruling holds that providing luncheon and bar facilities is not, in and of itself, an activity in furtherance of a business league purpose even if general business matters are the principal subject of discussion.

Rev. Rul. 73-411, 1973-2 C.B. 180 in discussing the exempt status of a shopping center merchants' association described in detail the history of section 501(c)(6) of the Code and the types of organizations described therein. This revenue ruling emphasized that the activities the organization carried on are important and concluded that no matter how broad-based activities might be in general terms they could fall short of supporting the conclusion that an organization qualifies for exemption under section 501(c)(6) because the business interests being served are not of the kind contemplated by section 501(c)(6). The revenue ruling concluded that many of the activities carried on by the association assisted the owner of the shopping center in managing and operating his real estate enterprise. These activities served the individual business interest of the owner of the shopping center and fell outside the scope of section 501(c)(6). Other activities relating to such matters as the maintenance and policing of shopping areas and similar functions primarily served the private interests of the members but related to their status as tenants rather than any common business interest of the community.

Section 501(c)(6) of the Code exempts organizations engaged in a common line of business which direct their activities towards improving the business conditions in this line of business. It is clear that this activity can be carried on through a dinner or a social function. However, it must still be established that the organization represents individuals engaged in a common line of business, is operating to improve conditions in such line of business and is not providing particular services to individuals. (See and compare Rev. Rul. 67-295 with Rev. Rul. 70-244)

A common line of business for the purposes of section 501(c)(6) of the Code requires more than a finding that the individuals are engaged in a business. The nature of the problems must be considered, (See Rev. Rul. 73-411) and general problems, such as a mutual desire to increase sales, does not satisfy the requirements of section 501(c)(6). (See Rev. Rul. 59-391)

Re: [REDACTED]

The information you have submitted fails to establish that the individuals who attend your dinners are in a common line of business for the purposes of section 501(c)(6). (See the general discussion in Rev. Rul. 73-411 regarding the history of organization described in section 501(c)(6)) Your program is similar to that of the organization described in Rev. Rul. 59-391 in that the sole purpose in attending the meeting to sell ideas and find avenues to invest money. Therefore, we have concluded that the holding in that revenue ruling governs and you do not qualify for exemption under section 501(c)(6) of the Code.

We recognize that there are distinctions between your operations and those of the organization described in that revenue ruling. Membership in your organization is not restricted and members are not accorded any special privileges. However, the basic holding in that revenue ruling is that the participants have no common business interest other than a mutual desire to increase sales and this is not sufficient to establish a common line of business for the purposes of section 501(c)(6) of the Code.

Furthermore, even if we could conclude that investors and entrepreneurs constitute a line of business for the purposes of section 501(c)(6) of the Code it is clear that the dinner meetings are set up to assist the entrepreneurs in advertising or promoting their ideas and seeking funding and to assist investors by presenting them with an opportunity to invest their money. This is similar to the advertising situation described in Rev. Rul. 64-315 and serves as an economy and a convenience for the participants. Therefore, you are not operating for the benefit of an industry as a whole rather you are providing a particular service for individuals. (See Rev. Rul. 68-264) This effect is not merely incidental to the dinner meeting rather it is the sole purpose for the meeting. Accordingly, exemption under section 501(c)(6) would also be precluded because your program is not directed towards the improvement of business conditions as a whole rather you are performing particular serves for individual persons.

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 officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the 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 officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

Re: [REDACTED]

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

When submitting additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following symbols on the envelope: [REDACTED]. These symbols do not refer to your case but rather to its location.

Sincerely yours,

Signed [REDACTED]

[REDACTED]  
Chief, Exempt Organizations  
Rulings Branch 1