

INTERNAL REVENUE SERVICE
District Director
2 Cupania Circle
Monterey Park, CA 91753-7431

DEPARTMENT OF THE TREASURY

Date: AUG 19 1997

Employer Identification Number:
[REDACTED]

Case Number:
[REDACTED]

Person to Contact:
[REDACTED]

Telephone Number:
[REDACTED]

Refer Reply To:
[REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify for exemption under that section.

FACTS:

The information submitted discloses that you were incorporated under [REDACTED]. The Fourth Article of your Articles of Incorporation authorizes your corporation to issue one class of shares having a total number of [REDACTED] shares. Article 1.20 of your Bylaws states that your objectives are as follows: "(A) To institute and maintain a method of collecting, recording and exchanging business information for and between its members; (B) To encourage local and foreign trade expansion for the benefit of its members; (C) To provide for the display, sale or publicity of goods, property, or services handled or represented by its members; (D) To create and encourage cooperative business methods so as to better increase the efficiency and service of the business by its members; (E) To develop and carry on such activities as shall be found best to promote welfare of its members and effect the purpose for which the organization [is] formed; and (F) To encourage business and professional development within the community as a whole."

Your Bylaws provide that membership shall be composed of the following types: Regular, Single, Associate, Honorary or Military or Sustaining. With the exception of Sustaining, each member shall represent a different trade, business, occupation or profession.

Your activities consist of monthly Board of Directors meetings, monthly new member orientation meetings, periodic business mixers at different members' business locations, an annual financial business outlook conference, an annual social outing, and weekly meetings of the membership. During your weekly meetings, members exchange business leads. Per your response dated February 14, 1997, each member is expected to bring at least "one qualified lead" to each weekly meeting. According to your response, "overall business generated for members from these leads exceeded [REDACTED] in 1995." In a breakdown of the amount of time and funds devoted to each of your activities, you stated that [REDACTED] of your time and revenues are devoted to the weekly meetings of the membership for the purpose of exchanging business leads.

ISSUE:

Does the organization qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code?

LAW:

Section 501(c)(6) of the Internal Revenue Code describes certain organizations exempt from income tax under section 501(a) and reads as follows:

"(6) Business leagues, chambers of commerce, real estate boards, boards of trade, or professional football leagues (whether or not administering a pension fund for football players), not organized for profit and 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 provides, in part, as follows:

"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. 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."

Revenue Ruling 59-391, 1959-2 C.B. 151 held that an organization which was organized for the purpose of exchanging information on business prospects in order to increase members' individual sales was not entitled to exemption as a business league under section 501(c)(6) of the Internal Revenue Code. The organization in Revenue Ruling 59-391 was organized "for the mutual exchange of business information among its members; to facilitate the making of business contacts for its members; to encourage all types of trade expansion for the benefit of its members; and to encourage better business relations among its members." Membership in the organization was comprised of persons, firms, corporations, and associations, each representing a different trade or business. The activities of the organization consisted of weekly luncheon meetings; the operation of a central information service for the exchange, among members, of business information, and the operation of an information service relating to sales and sales prospects. Revenue Ruling 59-391 concluded that the members of the organization had no common business interest other than the "mutual desire to increase their individual sales." Exemption under IRC 501(c)(6) was denied to the organization in Revenue Ruling 59-391 because its activities were not directed to the improvement of business conditions of one or more lines of business, but rather to the promotion of the private interests of its members.

ANALYSIS:

In order to qualify for tax-exemption as a business league described in section 501(c)(6) of the Code, an organization's activities must be directed towards the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons. Furthermore, IRC 501(c)(6) requires that an organization not be organized for profit.

The objective of your organization, per your Bylaws, is to exchange business information for and between your members. Your organization holds monthly meetings at which business leads are exchanged among members. Your correspondence dated

February 14, 1997, stated that [redacted] of your organization's time and funds are devoted to the weekly meetings at which business leads are exchanged. You are similar to the organization described in Revenue Ruling 59-391. Moreover, you are organized as a for-profit corporation [redacted]. This is not permitted under IRC 501(c)(6).

CONCLUSION:

We have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. Accordingly, you are required to file income tax returns on Form 1120 annually with your respective Service Center.

If you are in agreement with this determination, we request that you sign and return the enclosed agreement Form 6018. Please note the instructions for signing on the reverse side of this form.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law, and any other information to support your position, as explained in the enclosed Publication 892. You will then be contacted to arrange for a hearing. The hearing may be held at the office of Regional Director of Appeals, or if you request, at a mutually convenient District Office.

If we do not hear from you within 30 days from the date of this letter, and you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination. Section 7428(b)(2) of the Internal Revenue Code provides, in part, that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

Sincerely yours,

District Director

Enclosures:
Form 6018
Publication 892

Form **6018**
(Rev. August 1983)

Department of the Treasury-Internal Revenue Service
Consent to Proposed Adverse Action
(All references are to the Internal Revenue Code)

Prepare In
Duplicate

Case Number

Date of Latest Determination Letter

Employer Identification Number

Date of Proposed Adverse Action Letter
AUG 19 1991

Name and Address of Organization

I consent to the proposed adverse action relative to the above organization as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

NATURE OF ADVERSE ACTION

- Denial of exemption under section 501(c)(6)
- Revocation of exemption, effective
- Modification of exempt status from section 501(c)() to 501(c)(), effective
- Classification as a private foundation (section 509(a)), effective
- Classification as a non-operating foundation (section 4942(j)(3)), effective
- Classification as an organization described in section 509(a)(), effective
- Classification as an organization described in section 170(b)(1)(A)(), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428.

(Signature instructions are on the back of this form.)

Name of Organization

Signature and Title

Date

Signature and Title

Date