

Internal Revenue Service

District Director

Department of the Treasury

1100 Commerce St., Dallas, Texas 75242

Date: OCT 30 1998

Employer ID Number:

Person to Contact:

Telephone Number:

Refer Reply To:

[REDACTED]

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The information submitted indicates you were incorporated on [REDACTED] in [REDACTED]. Your Articles of Incorporation indicate that you are organized as a commercial association to (i) promote and provide a forum for [REDACTED] through [REDACTED] and [REDACTED] of [REDACTED] on a not-for-profit basis, (ii) educate the [REDACTED] community concerning the advantages of such alternatives as compared and contrasted to other forms of [REDACTED] such as resort to judicial process, and (iii) work for legislation and regulations that promote prompt and cost-effective [REDACTED] alternatives.

Membership is open to any person, firm, corporation or other organization, domestic or foreign, involved with or engaged in international business transactions and with an interest in promoting [REDACTED] of [REDACTED] by [REDACTED] or [REDACTED]. Membership fees range from \$[REDACTED] for students to \$[REDACTED] for large corporations.

Your primary activity is the administration of [REDACTED] and [REDACTED] proceedings between parties to resolve [REDACTED]. Membership is not required to utilize these services. You maintain a roster of qualified attorneys and experts who serve as [REDACTED] and [REDACTED] to those who contract for your administrative services. The "filing fee" for your administrative services ranges from \$[REDACTED] to \$[REDACTED] depending on the [REDACTED]. You indicate that the fees are based on equivalent fees charged by other similarly situated [REDACTED] organizations. You charge an additional \$[REDACTED] per hour per [REDACTED] or [REDACTED]. You state that this rate is based on other professional, legal and related service fees charged in the [REDACTED] and mid-sized [REDACTED] law firm rates for equivalent experience. [REDACTED] dollars of the hourly fee, up to \$[REDACTED] of each [REDACTED] or [REDACTED] fee, is retained by you. You estimate that [REDACTED]% of your time and [REDACTED]% of your funds will be used in this activity.

You also educate the [redacted] community concerning the advantages of [redacted] and [redacted] in [redacted] by co-sponsoring training programs, developing affiliations with other [redacted] organizations, and presenting informational programs to law firms and corporate law departments. You estimate that this activity will represent [redacted] % of your time and monies.

Finally, you also work to enact legislation and regulations that promote cost-effective [redacted]. You expect this activity to utilize [redacted] % of your time and monies.

Section 501(c)(6) of the Internal Revenue Code provides exemption for:

"Business leagues, chambers of commerce, ...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 regulations provides 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 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. 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. ***"

Revenue Ruling 56-65, 1956-1 CB 199, indicates that an organization providing specialized individual service to its members in a particular industry, through publications and other means to effect economies in the operation of their individual businesses was not entitled to exemption under section 501(c)(6) of the Code. The organization was performing particular services for individual persons.

In Revenue Ruling 61-70, 1961-2 CB 112, an association that operated a nurses' registry did not qualify for exemption under section 501(c)(6) of the Code because its primary purpose was the operation of a regular business of a kind ordinarily carried on for profit and the rendering of particular services for individual persons rather than promoting the general business conditions of the nursing profession.

Revenue Ruling 65-164, 1965-1 CB 238, described another organization that qualified for exemption under section 501(c)(6) of the Code. Its activities consisted solely of negotiation of collective bargaining contracts,

interpretation of such contracts, and adjustment of labor disputes for its members as a group. The ruling stated that negotiating contracts for the general membership, mediating or settling jurisdictional and other disputes, and furnishing general information were to be considered incidental activities since they further the common purpose with respect to the common labor problems of the business group and do not represent services to individual members which they could purchase elsewhere. The ruling also indicated that where such services do not further the common interests and individual members derive a direct and non-incidental benefit from the services rendered, the organization does not qualify for exemption. The ruling went on to give as examples the activities of serving as arbitrators in arbitration proceedings or prosecuting court or arbitration proceedings as situations where individuals may derive direct and non-incidental benefits and no common purpose is served.

A lawyer referral service was determined to be exempt under section 501(c)(6) of the Code in Revenue Ruling 80-287, 1980-1 CB 185. The organization arranged, at the request of any member of the public, an initial half-hour appointment for a nominal charge with a lawyer whose name was on an approved list maintained by the organization. The nominal charge was substantially below the normal rates for a half-hour appointment and was subsequently submitted to the organization. Any further contact between the lawyer and the client was arranged without the involvement of the organization. The ruling pointed out that this organization was different from the organization described in Revenue Ruling 61-170 because it provided more than a mere business referral service that was simply a convenience and economy to members of the legal profession. The principal purpose of the organization was to introduce individuals to the use of the legal profession.

You state that you are not like the building engineering construction business covered in Revenue Ruling 56-65 because that organization was created primarily as a service to its individual members. You indicate that is not the case for your organization because the [REDACTED] are key to your development. You further state that your [REDACTED] and [REDACTED] panels may or may not be made up of members of your organization. While the services provided by the organization in the ruling were restricted to members, that condition in and of itself is not what prevented the organization from qualifying for exemption. Section 1.501(c)(6)-1 of the regulations states in part, that the activities of an organization 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. The organization in the ruling was performing particular services for individuals: that is what prevented their exemption. The fact that the individuals were also members of the organization is not material in determining the organization's qualification under section 501(c)(6) of the Code. You are providing particular services to individuals just as the organization in that ruling did. You provide employment opportunities for the individuals on your roster. You provide [REDACTED] services for those willing to pay for your service. You are engaged in a regular business of a kind ordinarily carried on for profit and you are providing particular services for individual persons rather than promoting the general business conditions of the [REDACTED] profession.

You state that Revenue Ruling 61-170 focuses on characteristics of an organization that is different from your make up, purpose and function. However, you maintain a registry for [redacted] and [redacted] just as the organization in the ruling maintained a registry for nurses. While the nurses are members of the organization in the ruling, they are also individuals for whom the organization is performing particular services. You bring individuals on your registry together with [redacted] parties in much the same way that the nurses' registry brought individuals together with those in need of nursing services. As in the ruling, your roster activity is substantially similar to that of a commercial employment agency. Thus, you are engaged in a regular business of a kind ordinarily carried on for profit and you are rendering particular services for individual persons rather than promoting the general business conditions of the [redacted] profession.

You indicate that you are like the organization described in Revenue Ruling 65-164 because you are also dedicated to the mediation and settlement of industry disputes. However, you differ significantly from that organization in your activities. Your [redacted] activities benefit only those businesses that have contracted with you for your services rather than enhancing the overall business climate. You provide benefits to businesses on the basis of their payment for your [redacted] activities rather than their mere presence in the [redacted] arena. Unlike the organization described in the ruling, you are performing particular services for individuals rather than promoting a line of business.

You also indicate that you will provide [redacted] and [redacted] in a way that mirrors to some extent the lawyer referral service detailed in Revenue Ruling 80-287. You are similar to the lawyer referral service because you maintain a roster of qualified individuals. However, the lawyer referral service activities went no further than setting up an introductory appointment for the lawyer and prospective client. Your [redacted] activities go far beyond setting up initial, introductory appointments. You oversee the entire process from start to finish. The lawyer referral service charged nominal fees that were substantially less than the normal fees charged. Your fees are not nominal and are comparable to for-profit entities engaged in similar activities. You are performing particular services for individuals. This far outweighs any improvement in the image of the [redacted] process in general.

The education of the [redacted] business community concerning the [redacted] process, cosponsoring of training and courses, and your work for legislation and regulations that promote prompt and cost-effective [redacted] improve conditions in one or more lines of business. However, your [redacted] services constitute [redacted] of your activity and your primary purpose is the performance of particular services for individuals.

Accordingly, it is held that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(6) of the Code, and you are required to file Federal Income Tax Returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,



Glenn E. Henderson
District Director

Enclosures:
Publication 892
Form 6018