



Department of the Treasury
Internal Revenue Service
Mid-Atlantic (TE/GE)

Date: JAN - 9 2001

Employer Identification Number:

Person to Contact:

Telephone Number:

In Reply Refer To:

CERTIFIED MAIL

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 and have determined that you do not qualify for exemption under that section. Our reasons for this conclusion and the facts on which it is based are explained below.

The evidence submitted indicates that your organization was formed as a corporation. Your current articles of incorporation provide that you are organized "to provide a forum for subscribers to insurance agents' management computer software to obtain training, advice, and assistance from other members." Your bylaws provide for three classes of membership: Regular Members, Company Members, and Associate Members. The qualifications necessary for such membership are described in Article III Section I of your bylaws, and are paraphrased below:

Regular Members - Insurance agencies/brokerages using a product who are also receiving software support from

Company Members - Insurance companies whose business is the sale, marketing or promotion of insurance products or line of products. These insurance carriers must be represented by insurance agents/brokers currently using properly licensed software.

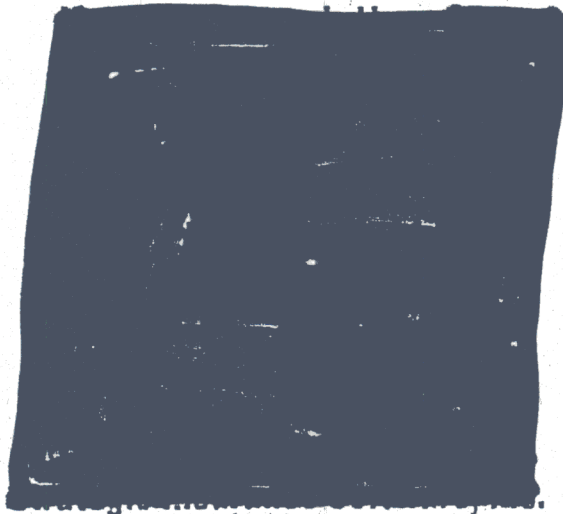
Associate Members - Companies (vendors) whose business is the sale, marketing or promotion of insurance related products or line of products.

Your bylaws further provide that the governance, management, and direction of the organization are vested in only the Regular Members (users of) as described below:

- Regular Members only may serve as Officers and Directors (Article VI Section I).
- Regular Members only may serve on the Executive Committee (comprised of Officers; Article VI Section II).
- Regular Members only may serve on the Membership Committee (Article III Section III).
- Regular Members only may nominate Directors (Article VII, Section III).
- Regular Members only may elect Directors (Article VII, Section II).
- Regular Members only may remove Directors (Article VII Section VIII).
- Regular Members only may elect Officers (elected by Directors; Article VII Section IX).
- Regular Members only may remove Officers (Article VII Section IX).

According to the description of activities provided in your application, the "single purpose" of the organization is "to function as a software users group", the members of which "are insurance agencies who use certain software", and who have "a common business interest in ... the effective use and administration of the system. The goal is to maintain and improve business conditions related to the system." [underlines ours]

According to the information provided in your articles of incorporation, the software system to which you refer is a product (or products) of a particular business, [REDACTED]. A slightly different name, [REDACTED], is included in the organization's logo as shown below. Given the similarities, we assume that these businesses are either one in the same, or that one is a division or subordinate of the other. Your bylaws make no distinction between the two names as only the [REDACTED] acronym is used throughout. So as to avoid confusion, and given that the name lends itself to the likelihood that such is the case, said software producer will hereafter be referred to as [REDACTED] for purposes of this determination.



All income is received from membership dues.

Your [redacted] response to our [redacted] request for additional information expounds on the organization's activities by stating, in part, the following:

"Membership includes Agents and Agencies that use one or more of the [redacted] software programs, frequently, side by side with competing programs, as well as insurance carriers, who communicate with agents and agencies utilizing many different management systems, as well as other interested parties.

"The issue of the users group is primarily the use of standardized computer language, or protocol. Most Insurance carriers (companies) wish to have a proprietary language and system, thereby, theoretically, tying the agency closer to the company. Communication and productivity can only increase significantly by the adoption of an industry protocol. Secondary uses are the seamless integration of a vast array of available hardware, software and emerging communication venues and the most productive use of all of these options.

"Two revenue rulings have been cited in the questions raised in regard to this application. Revenue Ruling 83-164 dealt with the application for tax-exempt status by an organization composed of diversified businesses, which used one particular brand of computer. [redacted] application differs from the situation in this ruling since it is composed of members of a particular segment of business and is involved in the problem of communication using new technology. The use of the technology is not limited to one product. Members have varied computer hardware and diverse software packages that need to be integrated. [redacted] deals with problems involving and promotes the use of [redacted], which will allow an agent to obtain quotes from several insurers for a client, but with a single inputting of the client information. [redacted] also works closely with other non-profit groups such as [redacted], the industry standards group, [redacted] the [redacted] and the [redacted], the [redacted]. Thus, the [redacted] focus is beyond a single product and involves members of a single business segment."

"In summary, [redacted] activities promote the common business purpose of improving the communication between agents and insurance companies. The method of communication is new, using electronics instead of paper. This is a rapidly changing and dynamic area, which takes constant attention to keep the (sic) up with the elusive cutting edge technology. The property and casualty insurance line of business (those who are insured, agents and insurance companies) will be aided by the improved communication."

In comparing this somewhat inscrutable response to the information originally submitted with your application, we have interpreted the above to mean that the organization's goal is to integrate the software of a particular business ([redacted]) with various other hardware and software systems so as to form a standardized language to facilitate communication among these various systems and the users thereof.

It is further indicated in your [REDACTED] response that the foregoing purpose is accomplished primarily via the Internet and e-mail. As such, the organization's website would best illustrate the precise nature of its activities. As it was anticipated that such may be the case, our [REDACTED] letter included a request for a hardcopy of the website. In response, it was stated that you are still awaiting receipt of such from your webmaster, at which time a copy will be forwarded to the IRS. To date, we have not received a hardcopy of the organization's website.

It was possible, however, to glean some information regarding the website from other documents in the application case file. In what appears to be a status update letter to the membership, it is stated that the website has been set up with links to the members' agencies "and other agencies within the [REDACTED] umbrella."

Further, as the bylaws appear to have been printed from the website, the first two pages thereof reflect some, if not all, of the links available. These include, in general, access to the following types of information: membership, governing body, professional societies, insurance fraud and safety, etc. In particular, there are links to numerous insurance agencies, and the following specific links: "About [REDACTED]", "Visit [REDACTED]", and "[REDACTED]". There are no apparent links regarding the competitors of [REDACTED].

The above-mentioned letter to the membership goes on to state, "We hope that all members will remain members and help us to enhance not only our agency management software, but [REDACTED] as well. We also ask that when meeting other users of the [REDACTED] systems you encourage them to become members of [REDACTED] also. The larger our number, the louder our voice." [underlines ours]

Section 501(c)(6) of the Internal Revenue Code provides for exemption from Federal income tax for organizations which are business leagues, 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 defines a business league as an association of persons (the term "persons" includes legal entities such as trusts and corporations) having a common business interest, whose purpose is to promote the common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities are directed to the improvement of business conditions of one or more lines of business rather than the performance of particular services for individual persons.

Section 1.501(c)(3)-1(d)(5)(ii) of the Regulations states that conducting research for purposes of the design or construction of equipment is incident to commercial operations.

Revenue Ruling 56-65, 1965-1 C.B. 199, holds that furnishing particular information and specialized individual service to members through publications and other means to effect economies in the operation of their individual business constitutes the performance of particular services for individual persons.

Revenue Ruling 74-147, 1974-1 C.B. 136, holds that an organization which directs its activities to members whose common business interest concerns the use of computers made by diverse and competing manufacturers qualifies for exemption under IRC section 501(c)(6).

Revenue Ruling 83-164, 1983-2 C.B. 95, holds that an organization whose members represent those who own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption under IRC section 501(c)(6).

Although the members of the organizations described in both Rev. Rul. 74-147 and Rev. Rul. 83-164 have a common business interest concerning the use of computers, the organization described in Rev. Rul. 74-147 directs its activities to users of computers made by diverse and competing manufacturers, while the organization described in Rev. Rul. 83-164 directs its activities to users of computers made by one manufacturer.

You state in your [redacted] response that this organization differs from that described in Rev. Rul. 83-164 because it is involved in the problem of communication using new technology, the use of which is not limited to one product. We contend that the technology to which you refer, although it may be used with various products, is itself a particular software product [redacted]. Given that your membership is substantially limited to, and your activities are substantially directed towards, the users of, and those affected by users of, the products of one software company, your organization is similar to that described in Rev. Rul. 83-164. The only discernible difference between the two organizations is that regarding the products involved (computers vs. software), which is irrelevant to the issue at hand.

Moreover, as is indicated in your articles of incorporation, and as is stated in your application, the organization's "single purpose" is to serve the users of this technology product and improve the business conditions related to this product -- or in other words, the business conditions of [redacted].

This is further substantiated by the fact that the governance, management, and direction of the organization are vested in only those members who are users of [redacted] products; that your website contains three different links pertaining to [redacted], but does not also include links regarding said organization's competitors; that the acronym for [redacted] is an integral part of your organization's name; and that the name of [redacted] is included in your organization's logo.

Although you do not directly sell [redacted] products, the existence of an organization dedicated to providing services primarily for users of, and those affected by users of, a particular product is an incentive towards purchasing the product which cannot be disregarded as merely incidental.

By directing your activities primarily to users of, and those affected by users of, [redacted] products, you are directing your activities towards the improvement of business conditions in only those segments of the insurance industry to which your members belong. This limited focus is in direct contrast to section 501(c)(6) purposes as it helps to provide an advantage to [redacted] and its users at the expense of its competitors and those in the insurance industry who may use, or wish to use, other brands of similar software. Such suppression of a competitive environment serves, ultimately, as an impediment to the progress of the insurance industry.

[REDACTED]

In addition, because your activities are substantially limited to users of, and those affected by users of, [REDACTED] products, there is no discernible distinction between your services and the educational after-sales services that businesses conducted for profit ordinarily offer their customers. This not only perpetuates [REDACTED] competitive advantage by relieving them of this burden, but in so doing may itself be seen as operating a business ordinarily conducted for profit as described, and prohibited, in Section 1.501(c)(6)-1 of the Regs. This is true regardless of whether a profit is generated, or who the ultimate recipient of any profit (whether direct or indirect) may be.

Further, the passage of information from your organization and its members to [REDACTED] for the improvement or enhancement of its software products may be considered a form of research for the purpose of designing software, an activity which is incident to the operation of a business ordinarily conducted for profit as described in Section 1.501(c)(3)-1(d)(5)(ii) of the Regs., and prohibited under Section 1.501(c)(6)-1 of the Regs.

Finally, because your membership is substantially limited to users of, and those affected by users of, a particular business' products, the provision of information and services regarding such products is considered the performance of particular services for individuals as described in Rev. Rul. 56-65. Such is also the case regarding the provision of website links pertaining to [REDACTED], the provision of website links to particular insurance agencies, and the inclusion of the [REDACTED] name in your organization's logo.

Thus, the organization's activities are not considered to be directed towards the improvement of business conditions of one or more lines of business within the meaning of Section 1.501(c)(6) of the Regs., but rather towards the improvement of business conditions of [REDACTED] Insurance Software, Inc. and the individual users of its products.

Therefore, 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 Code. In accordance with this determination, you will continue to be recognized as an organization which is subject to Federal income tax.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this, you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, laws, and any other information to support your position.

If you want a hearing, please request it when you file your appeal, and you will be contacted to arrange a date. The hearing may be held at the regional office or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax information authorization with us.

Appeals submitted which do not contain all documentation required by Publication 892 will be returned for completion.