



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

Date: DEC 13 2001

Person to Contact:

Contact Telephone Number:

Phone

Fax

CERTIFIED MAIL

Dear Sir or Madam:

We have considered the information submitted in support of your application for recognition of exemption under section 501(c)(6) of the Internal Revenue Code and have determined you do not qualify under this section. Our reasons for this conclusion and the facts on which it is based are explained below.

The evidence submitted indicates that you were incorporated under the for-profit laws of [redacted] on [redacted]. Subsequently, on [redacted], you filed Articles of Amendment to convert the corporation to a non-profit entity under the laws of [redacted].

The Articles of Amendment indicate that you shall be converted to a not-for-profit corporation and your purpose will be to function as a business league for one-call centers pursuant to section 501(c)(6) of the Internal Revenue Code. The Articles of Amendment state that all issued and outstanding shares will be cancelled and all former shareholders will become your corporate members with one vote granted to each such member.

Income is from receipts from members for [redacted] services, membership dues, and investment income. Expenditures are for payments to [redacted] for communication services under communication contract, meeting expenses, promotional brochures and marketing costs, Federal and State income taxes, salaries, office expense, taxes and licenses, telephone costs, legal fees, bank fees, internet costs, and postage.

Your activities consist of acting as a purchasing cooperative for your members, other non-profit organizations. Your members participate in volume purchasing of programs, such as, communications and computer equipment.

Membership is open to all not-for-profit organizations that provide services in the industry of one-call notification services. Membership dues are \$[redacted] per year for each participating member. Membership benefits consist of offering a full suite of networking products and services, such as, local phone service, long distance service, DSL (Digital Subscriber Line), Cable, Internet, Web/data hosting, VPN (Virtual Private Networks), and Worldwide technical support.

[REDACTED]

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

"(6) Business leagues, chambers of commerce, real-estate 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. 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.

In Revenue Ruling 66-338, 1966-2 CB 226, an organization formed to promote the interest of a particular retail trade which advises its members in the operation of their individual businesses and sells supplies and equipment to them is not exempt from Federal income tax under section 501(c)(6) of the Code. A nonprofit organization was formed to promote the interests of a particular retail trade. Its members are actively engaged in that trade. Field representatives of the organization call on the members to consult with them and advise them on members' stores. As part of their calls, the field representatives also inform the members about supplies, equipment, and operating supplies, store fixtures and display accessories, store layout and merchandising services, and electronic management services. Services of the field representatives and sales of supplies and equipment constitute the principal activities of the organization.

Your activities are similar to the activities of the organization described in the above ruling, in that; you act as a purchasing cooperative for other nonprofit organization in the one-call industry. You have a master contract with [REDACTED] to provide cost savings to members. In addition, you have also negotiated better rates with other various vendors for items such as headsets that the center operators use, as well as discounts with [REDACTED] for computer equipment used in the one-call centers.

The activities above provide your with an economy and convenience in the conduct of their individual businesses by enabling them to secure supplies, equipment, and services more cheaply than if they had to secure them on an individual basis. Therefore, these activities constitute the performance of particular services for individual persons as distinguished from activities aimed at the improvement of business conditions in their trade as a whole. They also constitute a business of a kind ordinarily carried on for profit even though they are conducted on a cooperative basis and produce only sufficient income to be self-sustaining.

Since the sale of the above services and products are your principal activities, you do not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.

In accordance with this determination you are required to file Federal income tax returns on Form 1120.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appraisal giving the facts, laws and any other information to support your position as explained in the enclosed Publication 892. You will be contacted to arrange a date for a conference. The conference may be held at the Regional Office, or if you request, at any mutually convenient district office. If we do not hear from you within 30 days from the date of this letter, this determination will become final.

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

Sincerely yours,



Steven T. Miller  
Director, Exempt Organizations

Enclosures: Publication 892