

Internal Revenue Service
Director, Exempt Organizations

Department of the Treasury
P.O. Box 2508 - EP/EO
Cincinnati, OH 45201

Date: February 27, 2001

Employer Identification Number:
[REDACTED]

Person to Contact - I.D. Number:
[REDACTED] - [REDACTED]

Contact Telephone Numbers:

[REDACTED] Phone

[REDACTED] FAX

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(6) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code. However, we have concluded that you do not qualify under another subsection.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1041 if you are a Trust, or Form 1120 if you are a corporation or an unincorporated association.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues." The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely,

Steven Miller

Director, Exempt Organizations

Enclosures: Enclosure I
Publication 892
Form 6018

Enclosure I Reasons For Proposed Adverse Action

On [REDACTED] we received your 1024 application requesting exemption under section 501(c)(6) of the Code. Your activity description indicated that the organization focuses on three main activities. The three activities include professional networking, educating the membership about political issues and organizing philanthropic events that benefit local charities. The percentage of time devoted to each of these activities is as follows:

- % Professional networking;
- % Education on local political issues;
- % Charitable fundraising.

The professional networking activities consists of having semi-monthly opportunities for professionals under the age of [REDACTED] in [REDACTED] area to meet each other during mixers held at local restaurants, bars, and social clubs. These events are organized by the officers of the organization. Proprietors of various establishments are contacted to reserve the date and time when the mixers are to be held. The officers contact and invite potential sponsors to the mixers. The sponsors donate money to the organization in exchange for advertising at the mixers. The mixers promote the organization's goal of providing a means for young professionals to regularly network with each other in order to promote local commerce and enhance each member's business and social opportunities.

The organization educates its members on local political issues. The organization provides semi-monthly luncheons and meetings for its members at local restaurants. At the luncheons guest speakers are presented to speak on various topics. The guest speakers represent diverse environments, which include local and county government, industry and educational institutions. The guest speakers provide information on a variety of topics that focus primarily on some aspect of local political landscape, such as bond elections, city council races, local judicial races, county improvement projects and other similar topics. The luncheons are conducted so that the membership is better informed about political decisions that impact their daily lives. The State Charter prohibits the organization's endorsement of one political candidate or issue over another. The luncheons further the organization's purpose of educating the local voting population from age 21 to 40 which have been traditionally underrepresented in local elections.

Charitable fundraising is the third and final activity conducted by the organization. Although the organization has not begun to conduct charitable fundraising, the organization plans to organize and promote various social events such as golf tournaments, marathons and other type similar events for the purpose of charities. All of the proceeds from the social events are to go to designated charities such as [REDACTED] and other charities.

A letter dated [REDACTED] was sent to you requesting additional information on your 1024 application. In the letter you were given Revenue Ruling 59-391 for purposes of showing precedent for why your organization did not qualify as an organization described in section 501(c)(6) of the Internal Revenue Code. Your respond dated [REDACTED] disputed the relevance of Revenue Ruling 59-391 with respect to the activities of your organization. You stated that [REDACTED]'s bylaws did not provide that the membership be limited to one representative from each line of business. The bylaws did not state that none of the member should be in competition with another member. [REDACTED] does not operate an information service relating to sales and sales prospects. [REDACTED]'s members share the common business interest of promoting the general commercial welfare and lines of business in [REDACTED] for young professionals between the ages of 21-40. The young professionals' lines of business include local occupations which typically have maintained a disproportionately low number of persons between the ages of 21-40 relative to the local population, including the small business industry, the retail sales and services industry, and the professional services industry (accounting, engineering, law and teaching).

In conclusion you reaffirmed [REDACTED]'s commitment to improving local lines of business and opportunities for young professionals between the ages of 21-40 and respectfully requested that its application for recognition of exemption under section 501(a) be approved. Alternatively you stated if exemption under section 501(c)(6) could not be granted then [REDACTED] respectfully requests that it be considered exempt under section 501(c)(7) of the Code.

You have requested consideration for exemption under both sections 501(c)(6) and 501(c)(7) of the Internal Revenue Code.

Law

Section 1.501(c)(6)-1 of the Income Tax Regulations provides, in part:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. The purpose of the association must be to further business conditions of one or more lines of business rather than perform particular services for individual persons."

Revenue Ruling 59-391, 1959-2, C.B. 151 held that an organization created for the purpose of exchanging information on business prospects and has no common business interest other than a desire to increase sales of members is not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code.

Revenue Ruling 70-244, 1970-1, C.B. 132 held 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) of the Code.

Section 501(c)(7) of the Code provides for exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes provided no part of the net earnings inures to the benefit of any private shareholder.

Revenue Ruling 69-527, 1969-2, C.B. 125 ruled that a social club formed to assist its members in their business endeavors through study and discussion of problems and other activities at weekly luncheon meetings does not qualify for exemption under section 501(c)(7) of the Code.

Application of the Law

501(c)(6)

A business league is defined as an association of person, including legal entities such as trusts and corporations, having a common business interest. Chambers of Commerce and boards of trade are organizations of the same general type as business leagues. However chambers of commerce and boards of trade direct their efforts at promoting the common economic interest of all the commercial enterprises in a given trade community.

█████ conducts networking activities to enhance each member's business and social opportunities. Income Tax Regulation section 1.501(c)(6)-1 provides that the purpose of an association must be to further business conditions of one or more lines of business rather than perform particular services for individual persons." █████ has not met this requirement. █████ was organized for the mutual exchange of business information and/or social opportunities among its members through networking. This activity facilitates the making of business contacts for its members, which serves the interest of individual persons and does not improve a business condition of one or more lines of business. On the basis of the evidence presented, the members of █████ do not have any common business interest other than a mutual desire to achieve a competitive advantage for its members who are under the age of 40.

Revenue Ruling 59-391, 1959-2, CB 151 held that an organization that holds weekly luncheon meetings for the purpose of operating a central information service for the exchange of business information among members does not qualify for exemption. This organization was denied exemption because the organization actively required its members to give preference to one another in business. [redacted] conducts networking activities to enhance each member's business. Although [redacted] does not required its members to give preference to each other's business the intent of networking achieves a similar purpose without imposing a requirement. The act of requiring members to give preference to one another in business is consistent with promoting one another in business. This does not represent the purpose for which exemption under section 501(c)(6) was intended. Under section 501(c)(6) of the Code the purpose of an association must be to further business conditions of one or more lines of businesses rather than perform particular services for individuals. Enhancing one another's businesses albeit a common business interest does not further business conditions of one or more lines of business as required by section 501(c)(6) of the Code.

Revenue Ruling 70-244 held 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) of the Code. [redacted] conducts semi-monthly opportunities at various locations such as restaurants, bars and social club for the primary purpose of enhancing member's businesses and providing social opportunities for members. According to Revenue Ruling 70-244 providing luncheon and bar facilities for members and their guests is not, in and of itself, an activity in furtherance of a business league purpose even if business matters are the principal subject of discussion of those using the facilities. [redacted]s networking activities do not comply with the requirements set forth in the regulations for improving business conditions of one or more lines of business. The networking conducted by [redacted] may potentially consist of either the exchange of business information and/or socializing. The activities conducted by [redacted] are not unlike those activities conducted by the organization in Revenue Ruling 70-244, which precluded exemption.

[redacted] cited Revenue Ruling 76-400 in its response dated January 23, 2001 to support its position that it qualifies for exemption under section 501(c)(6) of the Code. Revenue Ruling 76-400 held that a nonprofit organization formed as a membership organization of business and professional women that promotes the acceptance of women in business and the professions qualifies for exemption under section 501(c)(6) of the Code. Although the organization in the instant revenue ruling restricts its membership to women, its purpose is not limited to benefiting its members. Through its activities, which promote the common business interest of its members, the organization also improves conditions in one or more lines of business as required by the regulations. [redacted] limits its membership to professionals under the age of 40. Through networking [redacted]s purpose is limited to benefiting its members and does not improve conditions in one or more lines of business as required by the regulation. Networking provides a particular service for individual persons, and does not further business conditions of one or more lines of business as required by the regulation.

501(c)(7)

██████ does not qualify as a social club for purposes of exemption under section 501(c)(7) of the Code. Revenue Ruling 69-527 held that a social club formed to assist its members in their business endeavors does not qualify for exemption under 501(c)(7) of the Code. ██████ conducts networking activities to enhance member's businesses and social opportunities. To qualify for exemption under section 501(c)(7) of the Code, an organization must be both organized and operated exclusively for pleasure, recreation, and other non-profitable purposes. The term "other non-profitable purposes" has been held to mean other purposes similar to pleasure and recreation. ██████ primarily conducts professional networking activities, which precludes exemption under section 501(c)(7) of the Code. Activities conducted by organization's exempt under 501(c)(7) must be organized and operated exclusively for pleasure, recreation and other non-profitable purposes.

You are required to file Federal Income Tax Returns.

Contributions made to you are not exempt from Federal Income Tax as defined in section 501(a) of the Code.