

Internal Revenue Service  
Director, Exempt Organizations

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

Date: SEP 09 2002

Employer Identification Number:  
[REDACTED]

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

[REDACTED]  
[REDACTED]

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

A copy of this letter has been sent to the representative you designated on Form 2848.

Lois G. Lerner  
*Lois G. Lerner*

Director, Exempt Organizations  
Rulings and Agreements

Enclosures:

ENCLOSURE I

Information submitted with the organization's application indicates it was incorporated on [REDACTED]. The organization's Articles of Incorporation state it is organized and will be operated for the purpose of providing educational programs and opportunities for exchange of information for investors and entrepreneurs in [REDACTED].

Section II of the bylaws states the corporation will not have members as defined in the [REDACTED]. Article II further states the corporation may have participants or contributors with membership designations but these participants or contributors will not be members as defined in the [REDACTED].

Page 2 of the Form 1024 application states the organization sponsors bimonthly meetings for the purpose of networking among investors and entrepreneurs. Each meeting includes a brief presentation by an entrepreneur regarding a start-up venture about which the entrepreneur wishes to educate the investor community. The organization contends the featured presentation is educational and informational and is focused on providing current information for [REDACTED] investors and entrepreneurs.

[REDACTED] stated on page 2 that the meetings, which constitute 55% of its activities, support its purpose by providing opportunities for the exchange of information between investors and entrepreneurs in [REDACTED].

Page 2 of Form 1024 indicates [REDACTED] also conducts an annual investor only meeting. The annual meeting is by invitation only and provides networking opportunities for investors and includes a brief presentation by an entrepreneur as well as a longer presentation by an invited expert on investing.

[REDACTED] stated on page 2 that the meeting, which constitute [REDACTED] % of its activities, support its purpose by providing opportunities for the exchange of information by investors in [REDACTED].

[REDACTED] indicated on page 3 of Form 1024 that it is not a membership organization. [REDACTED] indicated on page 5 of Form 1024 that its revenues are derived from gross contributions, gifts, etc. and gross amounts derived from activities related to its exempt purpose. The organization clarified

[REDACTED]  
[REDACTED]  
that the amounts shown on page 5 are projected gross revenues from meeting attendance fees for bimonthly meetings.

In a letter dated [REDACTED] the organization stated it is not a membership organization and participation is open to the public. The organization further stated since there are no members there is not a common interest other than those individuals and organizations who participate in meetings and programs all have an interest in entrepreneurship, technology, early-stage investing, and the growth and diversification of the [REDACTED].

In the same letter the organization states, "[REDACTED] helps to link (through informal networking-not as a broker or agent) those interested in investing in these new ventures, and those starting them. The organization's activities center on providing educational value to both groups (potential investors, and potential entrepreneurs) in regards to how these sorts of deals are investigated, structured and monitored."

Section 501(a) of the Code provides for the exemption from Federal income tax of organizations described in section 501(c).

Section 501(c)(6) of the Code provides exemption from Federal income tax for "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 states, "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 the 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 Rev. Rul. 59-391, 1959-2 C.B. 131, exemption under 501(c)(6) was denied to an organization composed of individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession. The organization was created for the purpose of exchanging information on business prospects and has no

[REDACTED]

common business interest other than a desire to increase sales of members.

The revenue ruling found that the members of the instant organization had no common business interest other than a mutual desire to increase their individual sales. It stated that the organization's 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.

In MIB, Inc. v. Commissioner of Internal Revenue, 734 F.2d 71 (1986), an organization whose membership consisted of insurance companies was denied exemption as a business league under section 501(c)(6) of the Internal Revenue Code. The principal activity carried on by MIB was the maintenance and operation of a computerized system for compiling, storing and distributing information about applicants for life insurance. MIB argued that its activities created a deterrent to fraud which created benefits to the industry through reduced investigation expenses and reduced losses due to misclassification of applicants. The Court held MIB's activities by their nature consisted of rendering particular services for individual member companies and served to benefit the individual members' businesses. The Court also stated that even though the services produced various indirect and intangible benefits for the industry as a whole, the fact remained that the rendered services were in form and substance particular services for individual member companies.

According to the Court in this case, the ultimate inquiry is whether the association's activities advance the members' interests generally, by virtue of their membership in the industry, or whether they assist members in the pursuit of their individual businesses.

[REDACTED] contends that by providing services to particular businesses, it is aiding the economy of the entire community. As the Court held in MIB, Inc., the fact that the entire industry, or community, derives a general benefit, does not negate the fact that in form and substance the activities constitute particular services to individual companies that assist those particular businesses.

[REDACTED] has made reference to Rev. Rul. 70-641, 1970-2 C.B. 119; Rev. Rul. 74-147, 1974-1 C.B. 136; Rev. Rul. 78-225, 1978-1 C.B. 159; and, Rev. Rul. 76-400, 1976-2 C.B. 153, in support of its request for recognition of exemption.

[REDACTED] is unlike any of the organizations described in these revenue rulings.

In Rev. Rul. 70-641, exemption under 501(c)(6) was granted to a nonprofit organization of individuals from various professions in the

[REDACTED]  
[REDACTED]

field of public health and welfare organized to develop greater efficiency in the professions and solve common problems.

[REDACTED] is not like the organization described in this revenue ruling because there is no common business interest among participants. The only stated common interest of participants is providing or receiving capital. In Rev. Rul. 70-641 the involved individuals were all members in the field of public health and welfare.

In Rev. Rul. 74-147, recognition of exemption under 501(c)(6) was granted to an organization whose members represented diversified businesses that owned, rented, or leased digital computers produced by various manufacturers, organized to improve the efficiency of its members' use of computers. The organization was a membership organization, although nonmembers were invited to attend the conferences and were encouraged to join as members. The organization did not provide counseling or other services to its members with respect to specific individual problems.

[REDACTED] is not a membership organization. Additionally, [REDACTED] activities include the provision of specific services to participants. At both bimonthly meetings and annual meetings, individual entrepreneurs are given opportunities to make presentations to investors to attempt to gain investment capital, *for that particular business.*

In Rev. Rul. 78-225, a nonprofit organization that was operated to promote the common business interests of its members, a majority of whose businesses are located in one particular shopping center, but had a voluntary membership open to all businesses in a neighborhood community, qualified for exemption under section 501(c)(6) of the Code.

Unlike the organization in Rev. Rul. 78-225, [REDACTED] is not a membership organization and participants do not have a common business interest.

In Rev. Rul. 76-400, a nonprofit organization formed as a membership organization of business and professional women that promoted the acceptance of women in business and the professions qualified for exemption under section 501(c)(6) of the Code.

[REDACTED] is not like the organization described in this revenue ruling. First, [REDACTED] is not a membership organization. Second, the focus of the organization in the revenue ruling was women. In numerous instances in Federal Court cases and in Federal law, particularly various Civil Rights acts, women have been recognized as a class of individuals who have been repeatedly

[REDACTED]  
[REDACTED]

subjected to various forms of employment and economic discrimination. The participants in [REDACTED] activities have received no such recognition by legislators or courts.

[REDACTED] is not a membership organization, its participants do not have a common business interest, and the organization's activities include the provision of particular services to individuals. Therefore, [REDACTED] is not exempt under section 501(c)(6) of the Internal Revenue Code.