

Internal Revenue Service
Director, Exempt Organizations
Rulings and Agreements

Department of the Treasury
P.O. Box 2508, EODQA Rm. 7008
Cincinnati, OH 45201

Date: [REDACTED]

[REDACTED]

Employer Identification Number:

[REDACTED]

Person to Contact - I.D. Number:

[REDACTED]

Contact Telephone Numbers:

[REDACTED]

Phone
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)(3) 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 1120 if you are a corporation or an unincorporated association. Contributions to you are not deductible under section 170 of the Code.

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]

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides, in part, that:

A declaratory judgement or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within the time specified, this will become our final determination. In that event, appropriate State officials will be notified of this action in accordance with the provisions of section 6104(c) of the Code.

Sincerely,

[REDACTED]

[REDACTED]

[REDACTED]

Director, Exempt Organizations
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Enclosures: (4)

Enclosure I
Form 6018
Publication 892
Copy of Brochure

Enclosure I

Facts:

You were incorporated under Chapter 181 of the [REDACTED] Statutes as a non-stock, not-for-profit corporation on [REDACTED]. Your stated purposes, per Article 3, Section 3.1 of your Articles of Incorporation, are,

“...to carry on religious, educational and charitable activities of the Christian faith in the State of [REDACTED], the United States of America and throughout the world and to disciple individuals in business through the use of diverse materials, media and activities consistent with Biblical principles and the organization’s Statement of Faith.”

As part of your Form 1023 submitted on [REDACTED] you submitted a description of activities (Attachment “A”). The following items are excerpted from Attachment “A”:

- a. Item (1) – “Carry on religious and educational activities of the Christian faith in the State of [REDACTED], the United States of America, and throughout the world to assist Christian business leaders throughout the world in *improving business skills.*” (Italics added)
- b. Item (3) – “Conduct regular (i.e. weekly) meetings to enable participant’s opportunity to share Christian business principles, *network* and *give referrals...*” (Italics added)
- c. Item (6) – Provide counseling to business professionals. This is an outreach activity and promotes service of the organization.

A promotional brochure, entitled “[REDACTED]”, was submitted as part of the organization’s application. The brochure describes the following:

- a. The organization’s mission – “To promote the fellowship, integrity and growth of Christians in business through the sharing of biblical principles, networking and referral giving.”
- b. The organization’s core values – Faith, Integrity, Respect, Service, Teamwork, Excellence, and Continuous Improvement.
- c. Key policies –
 3. Each chapter is allowed only one person from each career field.”
 4. Meetings are generally held weekly to promote fellowship, present biblical business principles and provide referrals.
 7. Guests may attend up to 3 meetings. By the 3rd meeting, a guest must make application for membership to continue participation.”
- d. Testimonials – “It’s a great referral service.” “The value of networking means at least 5 to 6 additional closings for me each year.” “I really enjoy the Christian fellowship with other business owners and sharing ideas on how we can make our businesses grow.” “[REDACTED] is like a living Christian Business Directory.”

[REDACTED]

Although Article 10 of the Articles of Incorporation states that the corporation shall not have members, you reported your primary source of financial support as membership dues. Your brochure states that guests must become members after attending three meetings.

We requested additional information by letter dated [REDACTED]. Your response dated [REDACTED] contained a revised Attachment "A." The changes consisted of adding the amount of time devoted to each activity to each item. You indicated that you would devote [REDACTED] percent of time to regular (weekly) business meetings.

You also submitted a copy of a flier, which again stressed the related-related benefits of membership ("Network with other Christians/Business referrals/opportunities to promote your Business/Share Marketing Ideas").

We also asked why each of your chapters is required to limit its membership to one person from each career field. You responded, "The organization seeks to avoid the conflict of competing participants in each chapter to promote unity in the chapters, ministry and overall body of Christ."

On [REDACTED] we sent a letter advising you of concerns we had with your activities, and requesting that you provide additional information in support of your qualifications for tax-exempt status. You responded on [REDACTED]. Your response is discussed below, under "Applicant's Position."

Law:

IRC 501(c)(3) provides for the exemption of organizations which are organized **exclusively** for charitable, religious, educational, and scientific purposes which are not organized for profit & no part of the net earnings of the organization shall inure to the benefit of, or be distributable to its members, trustees, officers, or other private persons.

Section 1.501(c)(3)-1(a)(1) of the Regulations states, in part, "In order to qualify under section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more exempt purposes. If an organization fails to meet either the organizational or operational test, it is not exempt."

Section 1.501(c)(3)-1(d)(ii) of the Regulations provides that an organization is not organized or operated exclusively for one or more of the purposes specified in section 501(c)(3) unless it serves a public rather than a private interest. Thus, to meet the requirements of section 501(c)(3), it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

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 ... not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

[REDACTED]

Section 1.501(c)(6)-1 of the Income Tax Regulations states, in part: "A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest.... It is an organization of the same general class 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."

In Revenue Ruling 59-391, 1959-2 C.B. 151, exemption under section 501(c)(6) of the Code was denied to an organization that restricted its membership to individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession, and which is organized for the purpose of exchanging information on business prospects. It was concluded that the activities of the organization 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.

Revenue Ruling 61-170, 1961-2 C.B. 112, holds that an association composed of professional private duty nurses and practical nurses which supports and operates a nurses' registry primarily to afford greater employment opportunities for its members is not entitled to exemption from Federal income tax under section 501(a) of the Internal Revenue Code of 1954 as an organization described in section 501(c)(3) of the Code. Furthermore, the association is not entitled to exemption as a business league described in section 501(c)(6) of the Code since its primary purpose is the operation of a regular business of a kind ordinarily carried on for profit and it is engaged in rendering particular services for individual persons rather than promoting the general business conditions of the nursing profession. Revenue Ruling 55-656, C.B. 1955-2, 262, distinguished.

Revenue Ruling 74-308, 1974-2 C.B. 168, holds that a telephone-answering service to tow truck operators does not qualify for exemption under section 501(c)(6) of the Code.

Revenue Ruling 80-287, 1980-2 C.B. 185, holds that a non-profit lawyer referral service that arranges, at the request of any member of the public, an initial appointment for a nominal charge with a lawyer whose name is on an approved list maintained by the organization is not exempt under section 501(c)(3), but is exempt under section 501(c)(6) of the Code. Revenue Rulings 61-170 and 74-308 distinguished.

In Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U.S. 279, the Supreme Court held that the presence of a single non-exempt purpose, if substantial in nature, will destroy a claim for exemption regardless of the number or importance of truly exempt purposes.

In United States v. Wells Fargo Bank, 485 U.S. 351, 108 S. Ct. 1179, 99 L. Ed. 2d 368 (1900) the Supreme Court held that an organization must prove unambiguously that it qualifies for a tax exemption.

Harding Hospital, Inc. v. United States, 505 F.2d 1068 (1974), holds that an organization seeking a ruling as to recognition of its tax-exempt status has the burden of proving that it satisfies the

[REDACTED]

requirements of the particular exemption statute. Whether an organization has satisfied the operational test is a question of fact.

In Old Dominion Box Co. v. United States, 477 F2d 344 (4th Cir. 1973) cert. Denied 413 U.S. 910 (1973) the court held that operating for the benefit of private parties constitutes a substantial non-exempt purpose.

In First Libertarian Church, an Unincorporated Association v. Commissioner, 74 TC 396, 1980, the Tax Court upheld the denial of exemption under section 501(c)(3) for the taxpayer's religious organization. The Court ruled that the taxpayer had failed to show that its religious activities were segregated from its social and political activities or that its social and political activities were insubstantial.

Application of Law:

In United States v. Wells Fargo Bank, 485 U.S. 351, 108 S. Ct. 1179, 99 L. Ed. 2d 368 (1900), the Supreme Court held that an organization must prove unambiguously that it qualifies for a tax exemption. The information you have provided is insufficient to establish that you are operated exclusively for exempt purposes.

Like the organization in First Libertarian Church v. Commissioner, your religious activities cannot be segregated from its non-exempt (in this case, business-related) activities. Your weekly meetings include religious components. However, the overall information presented indicates that the effective purpose of these activities is to promote and financially improve the members' individual businesses.

Like the organization described in Revenue Ruling 59-391, your limitation of chapter membership to individuals in non-competing businesses is evidence that you are formed to promote members' business interests rather than for exclusively religious or educational purposes. Although this ruling pertains to Code section 501(c)(6) rather than 501(c)(3), a similar rationale can be applied.

Like the organization described in Revenue Ruling 61-170, you serve to facilitate the provision of business referral services, even though you may not be directly involved in referral transactions. This precludes exemption under both section 501(c)(3) and 501(c)(6) of the Code.

Like the organization described in Revenue Ruling 74-308, a substantial effect of your activities is to provide the organization's members with improved business prospects. As such, this activity is performing particular services for members, as distinguished from the improvement of business conditions. Accordingly, you do not qualify for exemption under section 501(c)(6) of the Code.

As stated in Revenue Ruling 80-287, "It is a clearly established principle of the law of charity that a purpose is not charitable unless it is directed to the public benefit. Not every purpose which is beneficial to the community, however, is deemed charitable. As a general rule, providing services of an ordinary commercial nature in a community, even though the undertaking is conducted on a

[REDACTED]

nonprofit basis, is not regarded as conferring a charitable benefit on the community unless the service directly accomplishes one of the established categories of charitable purposes.”

Like the organization in Old Dominion Box Co. v. United States, you operate for the benefit of private parties, which is a substantial non-exempt purpose.

Like the organization in Better Business Bureau v. United States, you have a substantial, non-exempt purpose, and are thus precluded from exemption under both Sections 501(c)(3) and 501(c)(6) of the Code

Applicant's Position:

In your letter dated [REDACTED], you presented your position as follows:

The applicant believes it properly seeks exemption from federal income tax as a 501(c)(3) organization. It is organized **exclusively** to provide religious and educational services. Further, the organization is not organized for profit as reflected in the Articles of Incorporation (i.e. non-stock and non-profit). The net earnings of the organization are used solely to defray administrative costs and do not inure to the benefit of directors, officers participants or any other private individual (other than for payment of reasonable compensation for services rendered).

Consistent with its mission to promote the fellowship, integrity and growth of *Christians* in business, the applicant seeks to share biblical principles (e.g. faith, integrity, respect, service, teamwork, excellence and continuous improvement) with participants. This mission is clearly religious and seeks to accomplish the organization's vision (see brochure) to glorify God and advance his Kingdom through the fellowship of Christians in business. When participants apply biblical principles in their own lives, we believe this will improve their lives and, therefore, business skills. The general public, in turn, will benefit from business owners, leaders and employees who apply sound Christian practices.

The applicant is not organized and does not operate as an employment agency, or a commercial answering service, or a referral agency. The applicant thus distinguishes itself from the organizations described in Revenue Ruling 61-170, Revenue Ruling 74-308, 1974-2 C.B. 168, and Revenue Ruling 80-287, 1980-2 C.B. 185. The applicant further asserts that its networking activities are insubstantial in nature (less than five minutes per meeting).

You acknowledged that members provide business referrals to each other. However, you state that this is a private activity between members, and you emphasize the fact that you do not receive commissions or any other remuneration in connection with these transactions.

[REDACTED]

You contend that encouraging business referrals among members serves to benefit the general public by ensuring that consumers have an opportunity to do business with businesspersons who "apply sound Christian practices."

You again stated that the restriction of chapter membership to one representative of any given business field is to "avoid conflict" and "promote unity."

Service Response to Applicant's Position:

You assert that your purposes and activities are exclusively religious and educational; that you are not operating a formal referral service, and any referral and networking activities among members are an insubstantial part of your total activities.

The fact that you are not actively involved in "brokering" business referrals among members, and do not receive funds in connection with such transactions, does not diminish the significance of these activities. The information you present to prospective members clearly indicates that "networking" and business referrals are an expected, and important, benefit of membership. You serve to introduce and bring together individuals for these purposes, and you encourage and promote such activities.

Your statement that membership is limited to non-competing businesspersons in order to "avoid conflict" is another indication that promotion of individual business interests is a substantial purpose of your activities. If your primary purpose is to promote Christian principles in the conduct of business, it is unclear why having members in the same line of business would create "conflict" in achieving this goal.

Conclusion:

Based upon the information submitted as part of your application, you serve the private business interests of your members. While your activities are, in part, religious and educational, you also serve to promote private interests, to more than an insubstantial extent. The benefits to members constitute private benefit in violation of section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations. Therefore, you are not operated exclusively for exempt purposes within the meaning of section 501(c)(3) of the Internal Revenue Code.

The benefits to members also constitute private benefit in violation of section 1.501(c)(6)-1 of the Regulations. Therefore, you are not operated for exempt purposes within the meaning of section 501(c)(6) of the Code.

Accordingly, we conclude that you do not qualify for exemption under either section 501(c)(3) or 501(c)(6) of the Code.