

No protest
Release copies to DD
3-7-96

CP:E:EO:T:5

OCT 19 1995

Employer Identification Number: [REDACTED]
Address: Southeast (Baltimore, MD)

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(6). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

You were incorporated [REDACTED] to advance small business by promoting and fostering the ability of small businesses to market and sell technology and other products and services to the federal government. Your Board of Directors is composed of three family members. They have a combined 18 years experience in the Federal Government trade expos/seminar industry.

Your membership is divided into three classes, each of which has different qualifications for membership and different rights and obligations with respect to voting and dues. Class one members are members of the Board of Directors. They have no membership dues or assessments. They manage your business and affairs. Class two membership is open to all agencies and departments of the federal government and their procurement agents/representatives. They have no membership dues or assessments. They are entitled to vote on the removal of any class two member and on any matter of business submitted for their consideration by the Board of Directors. Class three membership is open to any person or company who or which has an interest in the marketing and sale of technology and other products and services to the federal government. Dues and assessments on class three members will be determined by the Board of Directors.

You are awaiting a determination of your status before you conduct a membership drive. Membership dues will provide members with reduced rates on expos/seminars, subscription to a quarterly newsletter, valuable networking opportunities, and increased exposure to key procurement personnel.

You have acted as Exhibition Manager and Conference

Coordinator for the Department of Treasury Conference " [REDACTED] " held [REDACTED]. The registration fee for the conference was \$50.00 for individuals and \$200.00 for prime contractor/large business. You received the registration fees as compensation for being manager and coordinator of the conference. You also conducted a small business trade fair sponsored by the Department of State on [REDACTED].

You share facilities with the [REDACTED] a related for-profit organization that markets and produces on-site exhibits for the federal government. You will periodically engage [REDACTED] to market your events to the vendor community.

Section 501(c)(6) provides as follows: "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) of the Income Tax Regulations provides as follows: " Business leagues, chambers of commerce, real estate boards, and boards of trade.

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. An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated. A stock or commodity exchange is not a business league, a chamber of commerce, or a board of trade within the meaning of section 501(c)(6) and is not exempt from tax. Organizations otherwise exempt from tax under this section are taxable upon their unrelated business taxable income. See part II (section 511 and following), subchapter F, chapter 1 of the Code, and the regulations thereunder."

[REDACTED]

We believe it to be well settled that the original extension of tax-exempt status to chambers of commerce and similar organizations designed to promote the trade and commerce of a community was intended to cover membership organizations of a type characteristically supported by dues. For example, statements submitted by the Chamber of Commerce concerning the relevant portion of the Income Tax Act of 1913 made explicit references to the 'association' and 'membership' character of the organizations in question. The membership character of the organization for which exemption was asked is also implicit in repeated allusions to 'chambers of commerce' as being representatives of the type of organizations for which exemption was sought. On the matter of the income characteristics of such organizations, the Chamber emphasized that:

Exemption is asked only for commercial organizations which are not organized for profit. These organizations receive their income from dues paid by their members, a form of voluntary tax which business men pay if they may receive in common with all other members of their communities or of their industries the benefits of cooperative study of local development, of civic affairs, of industrial resources, and of local, national, international trade.

See, Briefs and statements, Senate Committee on Finance, 63d Cong. 1st Sess. 2001 (1913). We think it obvious that, in enacting section 501(c)(6), Congress was responding to the representation of the Chamber of Commerce that the section was intended to apply only to membership organizations which further the common business interests of their members and which are financed through membership dues. The legislative history of the statute, and the rules of statutory construction applicable to subchapter F, provide that only membership organizations supported by membership dues or assessments are included in the term of the exemption. Thus, an organization which is not in fact membership supported lacks the most significant characteristic common to organizations for which exemption was provided under section 501(c)(6).

A review of your membership structure indicates you are completely controlled by your three member Board of Directors. Your class two and class three memberships have no effective voice in your organization and are members in name only. You are not a membership organization as required by section 501(c)(6) of the Code. Your relationship to the related [REDACTED] does not preclude your income from inuring to its benefit.

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(6) of the Code and you

[REDACTED]

must file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key district office. Thereafter, any questions about your federal income tax status should be addressed to that office.

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

Internal Revenue Service
Attn: CP:E:EO:T-5, room 6539
1111 Constitution Ave, N.W.
Washington, D.C. 20224

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

(signed) [REDACTED]

[REDACTED]
Chief, Exempt Organizations
Technical Branch 5

cc: Southeast (Baltimore; MD

CP:E:EO:T-5

CP:E:EO:T-5

10-12-95

10-18-95