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Date Sept 27, 1985

Surname [REDACTED]

AUG 17 1985

Employer Identification Number: [REDACTED]
Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. For the reasons stated below, we conclude that you do not qualify for tax exemption under this section. Your protest rights are also explained below.

You were incorporated in [REDACTED], on a nonprofit basis under the laws of the State of [REDACTED]. Article [REDACTED] of your incorporating instrument states that your specific purposes are to "provide resource support, establish an information bank highlighting ethnic minority business products and services, act as a referral service for members, raise standards for quality service and provide leadership within the business community, and such other activities consistent with overall purpose."

In response to Part II, 1 of Form 1024, exemption application, you state additional purposes, including the monitoring of county level business and economic development opportunity and promoting the involvement of [REDACTED] based African-American businesses in national and international business development. You also advise that you will have operating divisions which provide specialized support services to African-American businesses in the areas of (a) service and finance; (b) retail and wholesale; (c) construction; and (d) manufacturing and distribution.

Your membership will be derived from the following four groups: (1) affiliated regional (local) African-American minority business organizations; (2) individual African-American minority business owners; (3) individual professionals employed by larger businesses in selected professional fields; and (4) corporate roundtable members, which consist of "majority" corporations, institutions, and public agencies, with an annual membership fee of \$[REDACTED] per

[REDACTED]

year. Otherwise, membership fees will be in the range of \$ [REDACTED] to \$ [REDACTED].

You also state that you plan to form a [REDACTED], consisting of a [REDACTED] member advisory group made up of [REDACTED] representatives from each of [REDACTED]'s [REDACTED] counties. [REDACTED] members will assist your Board of Directors in implementing membership drives, maintaining liaisons with major corporations and institutions, assessing African-American business service and credit needs, and reporting and assessing business expansion and economic development opportunity.

Membership benefits include a free listing on [REDACTED], quarterly newsletter subscription, networking, access to [REDACTED] loan pool, corporate procurement matching service, electronic credit card set-up assistance (optional fee-for-service), advocacy on business development issues, divisional membership in specialty areas of construction, manufacturing and distribution, service and finance, retail and wholesale, and participation in other planned activities, such as expositions and seminars.

Our examination of the administrative file indicates that your primary activity is the management of a loan fund for the business development of your members. Initially, this activity was to be performed by a subsidiary, [REDACTED]. However, in a memorandum dated [REDACTED], you informed our Key District Office that, "The 501(c)(4) lending function has been assumed as an activity of the proposed [REDACTED] 501(c)(6) organization."

At the time of application, [REDACTED] had committed \$ [REDACTED] for initial capitalization of the [REDACTED] (" [REDACTED] "). You also anticipate that [REDACTED] will receive funding from other business corporations, including banks, manufacturers and service firms. A board of [REDACTED] persons called " [REDACTED] " are to be responsible for the general management and administration of loan funds.

You represent that the principal purpose of the [REDACTED] is to address the financial needs of your members who are "unable to obtain traditional asset based bank loans." Given this context, you have developed flexible underwriting guidelines. These guidelines include provisions between you and fund investors and you and fund recipients or borrowers. As shown in Appendix 6 of your application, the provisions relating to

[REDACTED]

you and your investors shall address specific performance criteria and other measures needed to both ensure effective fund management and assurances that you will directly control fund dissemination and decisions. The general provisions involving you and borrowers are focused on effective decision-making and loan management.

In your submission of [REDACTED], you state that you staff will utilize the following criteria in evaluating loan applications: (1) credit and collateral; (2) business risk; (3) cash flow analysis; (4) management experience; and (5) financial management capability. Applicants are required to submit: (1) business financial statements; (2) personal and business tax returns; (3) current personal financial statements; and (4) cash flow projects with narrative summary.

Because the [REDACTED] program is "driven by sound business planning", potential Member Borrowers are also required to submit business plan summaries which include (1) product/service description; (2) business objectives; (3) business development strategies; (4) sales forecast; (5) information on business competition; (6) information about assumed markets for products/services; (7) information on management experience and know-how; and (8) other pertinent information.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of nonprofit business leagues, chambers of commerce, and boards of trade, whose net earnings do not inure to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as 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 business of a kind ordinarily carried on for profit. The regulations further require that a business league's activities be directed to the improvement of business conditions for one or more lines of business as distinguished from the performance of particular services for individual persons.

Rev. Rul. 76-38, 1976-1 C.B. 157 describes a nonprofit organization formed to maintain the good will and reputation of credit unions in a particular State. Most credit unions are members. As its sole activity, the organization maintains

[REDACTED]

a fund for assistance to credit unions that have financial difficulty or have become insolvent so that their members will not lose deposits upon liquidation. Interest free loans are made to such credit unions, and no restriction is placed upon their use of these funds. The credit unions are required to repay the organization if they are financially able to do so. The organization's income is from dues paid by the member credit unions.

Rev. Rul. 76-38 notes that the organization makes loans to credit unions, both solvent and insolvent, that may be used in their general operations. There is no assurance that loans will be made solely to protect threatened depositors. Thus, the loan activities are not solely calculated to achieve the goal of improving the industry's image by protecting depositors. "On the contrary, the organization may, consistent with its stated policies, permit its money to be loaned on favorable terms to members in a manner that would provide little or no additional security to depositors. Such a loan policy provides a convenience or economy to members in their business, and is not an exempt activity under section 501(c)(6) of the Code and the regulations thereunder. See Rev. Rul. 67-176, 1967-1 C.B. 140."

Held, the above organization does not qualify for exemption under section 501(c)(6) of the Code.

Rev. Rul. 67-176, 1976-1 C.B. 140 describes a nonprofit organization formed to advance a given profession, to contribute to the welfare and education of students preparing for that profession, to furnish financial aid to member by grants and loans, to provide a vehicle for the expression of members' views, and to engage in other activities for the benefit of its members.

One activity of the organization is the establishment of an emergency loan fund which enables a member to borrow small amounts of money interest free for short periods. In addition, a loan plan is sponsored in cooperation with commercial suppliers under which a member may borrow substantial sums for working capital and living expenses when beginning his practice. Under this plan, the member can obtain office equipment at a discount. The organization also sponsor a variety of insurance programs, a hotel-motel discount plan, and a car leasing plan for members.

Rev. Rul. 67-176 cites Code section 501(c)(6) and section 1.501(c)(6)-1 of the regulations, and then sets forth the following rationale in concluding that the organization does not qualify for exemption:

"The emergency loan plan, insurance plans, practice loan plan, hotel discounts, and car leasing plan serve primarily as a convenience and economy to members in providing financial aid in completing their professional studies and establishing themselves in practice, and are, therefore, the performance of particular services to members as opposed to improvement of a line of business."

With respect to your own application, the [REDACTED] appears to be your primary activity and clearly is a "particular service" for your members within the meaning of section 1.501(c)(6)-1 of the regulations. In Rev.Ruls. 76-38 and 67-176, discussed above, the loan activity caused disqualification under Code section 501(c)(6). We also note that you engage in other activities that may be considered particular services for members, including a corporate procurement matching service, electronic credit card set-up assistance, and a free listing on your computerized database.

Based on the foregoing, we hold that you do not qualify for exemption from federal income tax under section 501(c)(6) of the Code. Accordingly, you are required to file federal income tax returns on Form 1120.

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 Practice Procedures.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director, Atlanta, Georgia, which is your key district for exempt organization matters. Thereafter, if you have any questions about your federal income tax status,

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including questions concerning reporting requirements, please contact your key District Director.

When sending a protest or other correspondence with respect to this case, you will expedite its receipts by using the following address on the envelope:

Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224
Attn: [REDACTED]

Sincerely,

[REDACTED]

[REDACTED]
Chief, Exempt Organizations
Technical Branch 5

cc: DD, Atlanta
Attn: EO Group
w/administrative file

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Date	[REDACTED]	[REDACTED]					
Surname	[REDACTED]	[REDACTED]					
Date	8-1-95	8-16-95					