

**Internal Revenue Service**

Department of the Treasury

District  
Director

P.O. Box 2508, Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Refer Reply to:

EP/RO

Date: AUG 20 1986

• Dear Sir or Madam:

By our letter dated July 22, 1986, we proposed to deny your application for recognition of exemption under section 501(c)(6) of the Internal Revenue Code of 1954. This proposal was based on our determination that you are promoting a segment of the software industry rather than promoting the software industry as a whole.

You have agreed to this proposal by signing Form 6018, Consent to Proposed Adverse Action. Accordingly, this letter becomes our final determination.

Since you are not exempt, you must file all Federal tax returns required of you by the Internal Revenue Code.

This is a denial letter.

Sincerely yours,

District Director

District  
Director

P.O. Box 2508  
Cincinnati, OH 45201



Person to Contact:

Telephone Number:

Refer Reply to:

EP/ED

Date: JUL 22 1986

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 1954 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 and we have concluded that you do not.

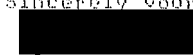
As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1120.

If you are 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 that 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 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 yours,



Enclosures: 2

District Director

Enclosure I

[REDACTED]

The information submitted discloses that you were incorporated as a nonprofit corporation in the State of [REDACTED] or [REDACTED]. Your purpose as set forth in Article Third of your articles of incorporation is as follows:

The nature of the business of the corporation and the objects or purposes to be transacted, promoted or carried on by the corporation are to disseminate information between and among its members and the suppliers of data processing hardware and software; to exercise all or any of the powers and to carry out all or any of the purposes enumerated herein or otherwise granted or permitted by the Nonprofit Corporation Act of the State of [REDACTED], and to do everything necessary, proper and advisable or convenient for the accomplishment of any of the purposes or attainment of any of the objects or the furtherance of any of the powers herein set forth, either alone or in the association with others or connected with its business or powers provided the same is not inconsistent with the laws of the State of [REDACTED].

Your application for exemption states that you were formed as an independent organization to insure quality products from [REDACTED]; to provide consensus input and response from the users; and to assure that [REDACTED] has the best possible advice and guidance in meeting the present and future needs of [REDACTED] users. You further state that you will work with [REDACTED] before, during and after system design and implementation recognizing that cooperation is more productive than confrontation.

Your application further states that you hold meetings on a quarterly basis at which time the users' representatives discuss concerns which users have and make suggestions to McDonnell Douglas for improvements to the banking software. At the annual users' conference, the representatives conduct seminars about use of the software.

Article II of your by-laws states that any person or organization may become a member of your organization if it (1) utilizes at least three applications of Tymshare software; (2) utilizes Tymshare maintenance on at least three applications of Tymshare software; (3) is current in dues to corporation; and (4) is approved for membership by the board of directors.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of 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.

Enclosure I (continued)

Section 1.501(c)(6)-1 of the Regulations states that 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. 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.

Rev. Rul. 74-147, 1974-1 C.B. 136, states that a nonprofit organization, whose members represent diversified businesses that own, rent or lease digital computers produced by various manufacturers, organized to improve the efficiency of its members' use of computers, qualifies for exemption under section 501(c)(6) of the Code.

Rev. Rul. 83-164, 1983-2 C.B. 95, states that an organization whose members represent diversified businesses that own, rent or lease computers produced by a single computer manufacturer does not qualify for exemption as a business league under section 501(c)(6) of the Code. The organization, by directing its activities to one manufacturer, provided a competitive advantage to that particular manufacturer at the expense of that manufacturer's competitors and customers of those competitors who may have used other brands of computers. Therefore, the organization was not promoting a line of business as required by section 1.501(c)(6)-1 of the Regulations. The organization was promoting a segment of a line of business.

Unlike the organization in Rev. Rul. 74-147, your members do not represent diversified businesses that own, rent or lease a product produced by various manufacturers. Your memberships consist of banks who use software produced by a single manufacturer.

Based on the information submitted, we feel that you are like the organization described in Rev. Rul. 83-164. By directing your activities to one manufacturer, you are promoting a segment of the software industry rather than promoting the software industry as a whole. Accordingly, it is our opinion that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the Code.