



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

1100 Commerce
Dallas, Texas 75242

Release Number: 200709070

Release Date: 3/2/07

UIL Code: 501.06-01

Person to Contact:

Identification Number:

Contact Telephone Number:

In Reply Refer to: TE/GE Review Staff

Dear :

This is a Final Adverse Determination as to your exempt status under section 501(c) (6) of the Internal Revenue Code.

Our adverse determination was made for the following reasons: Organization's activities were providing a direct benefit to the members rather than for the improvement of business conditions as a whole.

The Exceptional Organizations fails to meet the requirement for exemption under IRC 501(c) (6). 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 interest and not engage in a regular business of a kind ordinarily carried on for profit.

As a result of a recent audit of your organization's activities and Form 990 for the period ended June 30, 2004, the operation is organized and operating solely as a leads/referrals group which only benefits uncommon business members.

Based on the above, we are revoking your organization's exemption from Federal income tax under section 501(c) (6) of the Internal Revenue Code effective July 1, 2003.

You are required to file Federal income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for all years beginning after June 30, 2003.

You are required to file Form 1120, U.S. Corporation Income Tax Return. Form 1120 must be filed by the 15th day of the third month after the end of your annual accounting period. A penalty of \$20 a day is charged when a return is filed late, unless there is reasonable cause for the delay. However, the maximum penalty charged cannot exceed \$10,000 or 5 percent of your gross receipts for the year, whichever is less. This penalty may also be charged if a return is not complete, so please be sure your return is complete before you file it.

You have the right to contact the office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access your tax information and can help you get answers. You can call 1-877-777-4778 and ask for Taxpayer Advocate assistance. Or you can contact the Taxpayer Advocate from the site where the tax deficiency was determined by calling 949-389-4804, or writing to:

Internal Revenue Service,
24000 Avila Rd., Stop 2000
Laguna Niguel, CA 92677

Taxpayer Advocate assistance cannot be used as a substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determinations, nor extend the time fixed by law that you have to file a petition in the United States Tax Court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling.

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

Sincerely,

Marsha A. Ramirez
Director, EO Examinations



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY

Internal Revenue Service

Mail Stop 1112

PO Box 12307

Ogden, UT 84412

July 21, 2006

Exceptional Organizations

Address

City, State, Zip

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear

We have enclosed a copy of our report of examination explaining why we believe an adjustment of your organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, *The Examination Process*, explains how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

Letter 3610 (04-2002)
Catalog Number 34801V

You may also request that we refer this matter for technical advice as explained in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*. If a determination letter is issued to you based on technical advice, no further administrative appeal is available to you within the IRS on the issue that was the subject of the technical advice.

If you accept our findings, please sign and return the enclosed Form 6018, *Consent to Proposed Adverse Action*. We will then send you a final letter modifying or revoking exempt status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Marsha A. Ramirez
Director, EO Examinations

Enclosures:
Publication 892
Publication 3498
Form 6018
Report of Examination
Envelope

Form 886-A ; (Rev. January 1994)	REPORT OF EXAMINATION	Schedule number or exhibit 0001
Name of taxpayer EXCEPTIONAL ORGANIZATIONS	Tax Identification Number	Year/Period ended

Legend:

TP – Exceptional Organizations

State – XXY

Issue Name: Tax Exempt Status

Per Return: 990

Per Exam: June 30, 2004

Issue(s):

Whether Exceptional Organizations continues to qualify for exemption under Section 501(c)(6) of the Internal Revenue Code.

Facts:

Under the laws of the State of XXY, Exceptional Organizations was organized for the mutual exchange of business information among its members. The date the Internal Revenue Service recognized exemption, under IRC §501(c)(6), is February 2004.

The publications provide a mission statement which is; “The Exceptional Organizations will promote the growth of business for it’s members through the exchange of leads, referrals and information”. Among the benefits of the membership are, an increase in business through networking and leads, use of a membership directory to aid in business referrals, and use of a display table for the members to promote their business to other members and guests of Exceptional Organizations.

The Bylaws provide that the organization allows for only one member per business category with the intent to avoid competition for the same dollar. The bylaws also provide that members are not to offer services beyond their category of membership without the approval of the board.

The activities of Exceptional Organizations include a weekly breakfast meeting for the members to congregate with the express purpose of allowing them to solicit and refer business opportunities to one another. At the meetings each member is allowed a few minutes to promote their business with the expectation of soliciting business referrals and leads.

The minutes provide that the Exceptional Organizations is actively seeking new members; the current members are educated about the vacant business categories so that they are aware of who the organization is looking for, this to encourage their participation in bringing forth new members. The minutes also provide that each member is encouraged to provide new leads each month with a reward system in place for members who provide at least 5 third-party leads.

The organization offers a Code of Professional Conduct which states that the members are required to attend at least one half of the regular scheduled meetings and produce a minimum of two referrals to other Exceptional Organizations members per month.

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Law:

IRC §501(c)(6) provides the following definition; 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.

Treasury Regulation §1.501(c)(6) -1 - Provides in part that 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.

Revenue Ruling 59-391, 1959-2 C.B. 151 – involves a case where an organization, which restricts its membership to individuals, firms, associations, and corporations, each of which represents a different trade, business, occupation, or profession and no one of which is in competition with another, is not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code of 1954.

The service held that the members of the specific organization had no common business interest other than a mutual desire to increase their individual sales. It appeared evident that its 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, which membership is limited by the organization's bylaws to one representative from each line of business. Nor could this diversity of interest be explained away by a comparison with the business interests of the members of a local board of trade or a chamber of commerce. Such organizations do not limit their membership in the manner employed in the given case. Since the organization actively required that its members give preference to one another in business transactions, for their mutual and exclusive benefit, is not considered to be the type of an organization for which an exemption from tax was intended.

It was held that the association was not a business league within the intendment of section 501(c)(6) of the Code and revocation was upheld.

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Revenue Ruling 59-234, 1959-2 C.B. 149 – held that an organization whose primary purpose is to stimulate and facilitate the transaction of business between members through cooperation and exchange of exclusive listings, which is inherently designed for the rendering of particular services for individual members as a convenience and economy in the conduct of their respective businesses, is not entitled to exemption from Federal income tax as an organization described in 501(c)(6) of the code.

Revenue Ruling 74-308, 1974-2 CB 168 – involves a nonprofit organization whose principal activity is providing a telephone answering service to distribute calls for towing service on a rotational basis to its members who are tow truck owners and operators. The primary effect of the activity described above is to provide the organization’s members with an economy and convenience in the conduct of their individual businesses. Thus, by this activity the organization is performing particular services for its members as distinguished from the improvement of business conditions in the towing industry. It was held that the organization does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code

Governments Position:

In accordance with the above-cited provisions of the Code and regulations under section 501(c)(6), Revenue Ruling 59-391, 1959-2 CB 151, Revenue Ruling 59-234, 1959-2 C.B. 149, and Revenue Ruling 74-308, 1974-2 CB 168, Exceptional Organizations is not considered to be the type of an organization for which an exemption from tax was intended.

Exceptional Organizations is organized and operating solely as a leads/referrals group which only benefits the members. They are not in compliance with IRC§501(c)(6), which states, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and Treas. Reg. 1.501(c)(6)-1 which states, 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.

Revenue Ruling 59-234, 1959-2 C.B. 149 and Revenue Ruling 74-308, 1974-2 CB 168, identify organizations whose activities were providing a direct benefit to the members rather than for the improvement of business conditions as a whole. Both of these organizations were revoked. Exceptional Organizations falls into this same category.

The facts documented in this report provide a clear understanding that the purpose of Exceptional Organizations, “to promote the growth of business for it’s members through the exchange of leads, referrals and information”, and the activities of Exceptional Organizations, weekly meetings held for the members to exchange leads, referrals and information, are represented in Revenue Ruling 59-391, 1959-2 CB 151. This ruling held that the association was not a business league within the intendment of section 501(c)(6) of the Code and revocation was upheld. Therefore it is the government’s position that, since Exceptional Organizations is operating by way of referrals and leads to their members, they are

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providing a direct benefit to their members rather than to the business industry as a whole, revocation is being proposed.

Taxpayer's Position:

Organization did not reply to the 30 day letter, therefore their position has not been included in this final report.

Conclusion:

The Government concludes that the Exceptional Organizations does not meet the requirements to be recognized as exempt from federal income tax under 501(c)(6) of the Internal Revenue Code. Accordingly, the organization's exempt status is revoked effective July 1, 2003.

Form 1120 returns should be filed for the tax periods after July 1, 2003.