



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Number: **201432026**
Release Date: 8/8/2014

Date: May 15, 2014

UIL: 501.06-01

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

Dear :

This is our final determination that you do not qualify for exemption from federal income tax as an organization described in Internal Revenue Code section 501(c)(6). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, you should follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your federal income tax status and responsibilities, please contact IRS Customer Service at

Letter 4040 (CG) (11-2005)
Catalog Number 47635Z

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933.
The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Director, Exempt Organizations
Rulings and Agreements

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: March 11, 2014

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

LEGEND:

O = State

W = Place

N = Date

UIL:

501.06-01

Dear :

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

Issues

Do you qualify for exemption under Section 501(c)(6) of the Internal Revenue Code?
No, for the reasons described below.

Facts

You were incorporated in the State of O effective N. Your specific purpose is to promote a business network organization through education and referrals.

Your bylaws state that you are a membership organization made up of a network of professional business men and women in the W area dedicated to improve your

Letter 4034(CG) (11-2011)
Catalog Number 47628K

members businesses through weekly business activities and professional contacts. Your goals are to expand business skills and contacts of your members by sharing quality business referrals among yourselves. Only one person per profession or business category is permitted to represent each membership category to avoid conflicts of interest.

A prospective member must be sponsored by another member and be approved at the discretion of the board and membership committee. There will be only one member per profession or category. The prospective member applies for membership, and is accepted or rejected based upon what contributions he or she can make to the group. Every regular meeting will feature one member presentation. The member will be allowed up to ten minutes (with an additional 5 minutes for Q&A), to talk about and promote his business. He may at that time distribute company literature to the membership. Members are required to make qualified business referrals to each other. Each referral should provide the name and telephone number of the contact, a description of the referral, the referral date, and the referrer's name and contact number. Members may refer themselves. Members that have not made any referrals in a quarter will receive a warning. Visitors cannot receive referrals since their business may overlap a members business.

You limit your membership and strive to be no larger than 40-45 members. An individual member should not be a member of any other group that allows one person per profession and whose primary purpose is to pass referrals to each other because it substantially reduces the members commitment to the chapter members. If a member is found to be a member of another referral group their membership with you will be terminated immediately.

Your mission as explained in your brochure is to help members increase their business through a structured positive word of mouth program. Your purpose is to promote and refer business within your membership ranks by meeting on a weekly basis to exchange referrals and leads, network and build new business relationships for your members. You are a group of professional business people who meet to generate new business for each other. You are not like other business networking groups because you "don't just meet, you conduct business".

Weekly meetings are conducted and cover such topics as ways to promote members business through marketing and advertising. Each member gives a one minute presentation about his business. Guests are allowed a minute to describe their businesses and the services they provide. One-on-one networking follows and one member is given time to give a more in-depth review of his business. He then answers questions from the members and referrals are distributed. The meeting concludes with announcements regarding upcoming professional events -- chamber meetings etc.

You are supported by member dues; your only expenses are for meeting space rental, web site maintenance, and State fees.

You provided a signed statement that, effective the date of signing, your membership would “be open to any and all businesses within our community.” However, you later stated that if an otherwise eligible business is in “direct conflict” with an existing member, it would be declined membership.

Law

Section 501(c)(6) of the Internal Revenue Code provides for the exemption of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues (whether or not administering a pension fund for football players), which are 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)-1 of the Income Tax Regulations defines a business league as an association of persons having a common business interest. Its purpose is to promote the common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities are directed to the improvement of business conditions of one or more lines of business rather than the performance of particular services for individual persons. Business leagues are of the same general class as chambers of commerce and boards of trade, which direct their efforts at promoting the common economic interests of all the commercial enterprises in a given trade community.

Revenue Ruling 67-77, 1967-1 C.B. 138) describes an association of dealers selling a particular make of automobile that engages in financing general advertising campaigns to promote the sale of that make is not exempt because it is not promoting a line of business; i.e., the automotive industry as a whole, but performing particular services for its members

Revenue Ruling 73-411, 1973-2 C.B. 180 held that a shopping center merchants' association whose membership is restricted to and required of the tenants of a one-owner shopping center and their common lessor does not direct its activities to the improvement of business conditions of one or more lines of business. It promotes the general business interests of its members alone, and performs particular services for its members.

Revenue Ruling 76-409, 1976-2 C.B. 154, describes an organization which performs particular services for its members, rather than promoting the general business interest of the industry as a whole, by publishing and distributing to its members' customers and potential customers a directory containing members' names and addresses.

Revenue Ruling 59-391, 1959-2 C.B. 151, held that an organization composed of

individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession created for the purpose of exchanging information on business prospects and which has no common business interest other than a desire to increase sales of members 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 bylaws of the organization provide that the membership shall be composed of persons, firms, associations, and corporations, each representing a different trade, business, occupation or profession. With respect to the main activities of a member, no member shall be in competition with another member. The organization holds weekly luncheon meetings; operates a central information service for the exchange, among members, of business information; encourages member cooperation and business efficiency; and operates an information service relating to sales and sales prospects. Each member submits a list of business acquaintances and agrees to furnish to other members letters of introduction to such acquaintances. Each member agrees to keep the association's members informed of business changes which may indicate potential markets for the sale of members' products. On the basis of all the evidence presented, it was concluded that the members of the organization have no common business interest other than a mutual desire to increase their individual sales. The organization's activities are 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 can 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 instant case. The regulations require that the activities of the organization be directed to the improvement of business conditions of one or more lines of business. This requirement has not been complied with. Moreover, since the organization actively requires that its members give preference to one another in business transactions, for their mutual and exclusive benefit, it is not considered to be the type of an organization for which an exemption from tax was intended.

Application of Law

You are not described in Section 501(c)(6) of the code because you are primarily organized and operated to provide particular services for your members. Specifically you will operate a referral network to provide business referrals for your members.

You are not described in Section 1.501(c)(6)-1 of the Income Tax Regulations because the facts show you are operated to provide particular services to your members specifically through exchanging referrals, leads and network with a view to increasing your members business.

Like the organizations in Revenue Ruling 67-77 and Revenue Ruling 73-411 you are not promoting the general business interest of the community as a whole. You impose restrictions on your membership subject to conflicts with business owned by current members.

Like the organization in Revenue Ruling 76-409 you also provide exclusive referral services for your membership which is restricted to only one person per profession or business category. Therefore you are providing particular services to your members and not promoting the general business interest of the industry as a whole,

You are organized and operated primarily to aid your members in their individual business endeavors. You are like the organization described in Revenue Ruling 59-391. Your membership is composed of persons, each representing a different trade, business, occupation or profession, and no member can be a direct business competitor of another member. You hold weekly meetings, at which your members' network, exchange business information, promote their businesses to other members, and exchange business referrals or leads, similar to the Revenue Ruling's "letters of introduction". Your members have no common business interest other than a mutual desire to increase their individual sales, and the limitations placed on your membership differentiate you from a board of trade or chamber of commerce.

Your activities are not directed to the improvement of business conditions of one or more lines of business but promote the private interests of your restricted membership, and provide particular services to them. You operate for the mutual and exclusive benefit of your membership.

Applicant's Position

You contend that you meet all the requirements of a business league. You indicate that you are an association of small business owners in W county that meet to not only promote your own business but also assist other members with questions regarding marketing, accounting, insurance etc. You do not sell anything, do not hold any fundraisers and are not providing any service which would be engaged in for profit.

Service Response to Applicant's Position

Your organization is not promoting the industry as a whole. The information you provided with the application and the subsequent correspondence show that your organization is formed to provide particular services to your members and promote their private interests. Therefore you do not meet the requirements for exemption as a business league under Section 501(c)(6) of the code..

Conclusion

Your activities are not 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. Accordingly, we conclude that you are not exempt under IRC 501(c)(6).

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of why you disagree. Your protest statement must be filed within 30 days of the date of this letter and should include:

- Your organization's name, address, EIN number and a daytime phone number.
- A statement that the organization wants to protest the proposed determination.
- A copy of this letter showing the findings that you disagree with (or the date and IRS office symbols from the letter.
- An explanation of your reasons for disagreeing including any supporting documents.
- The law or authority if any, on which you are relying.

The protest statement may be signed by one of your officers or your representative. We will consider your statement and decide if the information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*.

The protest statement should also include the following declaration.

"Under penalties of perjury, I declare that I have examined this protest including accompanying documents and, to the best of my knowledge and belief, the statement contains all relevant facts, and such facts are true, correct, and complete."

The declaration must be signed by an officer or trustee of the organization who has personal knowledge of the facts.

Your protest will be considered incomplete without this statement.

If an organization's representative signs and submits the protest, a substitute declaration must be included stating that the representative prepared the protest and any accompanying documents; and whether the representative personally knows (or does not know) that the statement of facts in the protest and any accompanying documents are true, correct.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you. In that case you must file a Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. You can find more information about representation in Publication 947, *Practice Before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications.

If you do not file a protest within 30 days, you will not be able to seek a declaratory judgment in court at a later date because the court requires that you first exhaust administrative remedies at the IRS. Code section 7428(b)(2) provides, in part, that a declaratory judgment or decree shall not be issued in any proceeding unless the Tax Court, the United States Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted all of the administrative remedies available to it within the IRS.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848, and any supporting documents to the applicable address:

Mail to:

Internal Revenue Service
EO Determinations Quality Assurance
Room 7-008
P.O. Box 2508
Cincinnati, OH 45201

Deliver to:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Room 7-008
Cincinnati, OH 45202

You may fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

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

Sincerely,

Director, Exempt Organizations
Rulings & Agreements

Enclosure, Publication 892