



**Department of the Treasury
Internal Revenue Service**

P.O. Box 2508
Cincinnati, OH 45201

Release Number: **201529010**
Release Date: 7/17/2015
UIL Code: 501.06-00
501.06-01

Date: April 23, 2015

Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

Dear _____ :

This letter is our final determination that you don't qualify for tax-exempt status under Section 501(c)(6) of the Internal Revenue Code (the Code). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

You must file federal income tax returns for the tax years listed at the top of this letter using the required form (also listed at the top of this letter) within 30 days of this letter unless you request an extension of time to file.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection (as required under Section 6110 of the Code) 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, follow the instructions in the Notice 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can contact the person listed at the top of this letter. If you have questions about your federal income tax status and responsibilities, call our customer service number at 1-800-829-1040 (TTY 1-800-829-4933 for deaf or hard of hearing) or customer service for businesses at 1-800-829-4933.

We sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

Director, Exempt Organizations

Enclosures:

Notice 437

Redacted Letter 4034, *Proposed Adverse Determination under IRC Section 501(a) Other Than 501(c)(3)*

Redacted Letter 4040, *Final Adverse Determination under IRC Section 501(a) Other Than 501(c)(3) - No Protest*

cc:



Department of the Treasury
Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Date: March 5, 2015

Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B = Date

C = State

UIL:

501.06-00

501.06-01

Dear _____ :

We considered your application for recognition of exemption from federal income tax under Section 501(a) of the Internal Revenue Code (the Code). Based on the information provided, we determined that you don't qualify for exemption under Section 501(c)(6) of the Code. This letter explains the basis for our conclusion. Please keep it for your records.

Issue

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

Facts

You were incorporated on B, in the state of C. The following purposes are outlined in both your Articles of Incorporation and your bylaws:

- To institute and maintain a method of exchanging and interchanging business information among members.
- To create and encourage cooperation, business efficiency, and service to members.
- To bring members in touch with business opportunities.
- To encourage local, national, and foreign trade expansion of members.
- To promote a better acquaintance and closer association among members.

Article II of your bylaws defines membership as "...persons, firms, and corporations, each representing a different trade or business, occupation or profession..." Article II also states, "Any person, firm, or

corporation whose main activity or profession is not in competition with the main activity or profession of a member is eligible for membership in the Association. An application for membership shall not be denied by reason of any conflict between the main activity of such applicant and an incidental activity of a member.”

Your bylaws state that all members are classified by their business or profession. Further, your bylaws state that you allow only one membership for each classification. No member is allowed to hold more than one classification unless otherwise approved by your Board of Directors.

Article IV of your bylaws titled “Obligations of Members” outlines the following member requirements:

- Section 1. Attendance: Members, by their designated representatives, shall attend each and every meeting of the association.

Members shall have the privilege of making up enforced absences from regular meetings by attending an after-hours event or a meeting of the Board of Directors within sixty (60) days of missing a regular meeting.

- Section 2. Leads: A lead is specific information not otherwise readily known in the community in which a current member can rely upon to generate business. Information which cannot benefit any member is not a valid lead. Each member is required to bring in a minimum of one complete lead at each weekly meeting, or pay \$1.00. If the member is unable to submit this information at a meeting, the information may be called, emailed, or faxed to the prospective business that will be receiving the lead.

A member who does business with another member for the first time shall be entitled to lead credit for that transaction. Repeat business with that same member does not entitle the member to additional lead credit unless the transaction is new business.

- Section 3. Classification Talks and After Hours Events: Members shall give a Classification Talk within the first three months and host an after-hours event within the first six months of membership and at least once every two years thereafter. What constitutes an after-hours event shall be determined by the Board of Directors.

A member may be excused from hosting an after-hours event by appearing in person before the Board of Directors and presenting reasons for not having an after-hours event. If excused by the Board of Directors, the member shall sponsor an event in an amount equal to the average cost of an after-hours event, as determined by the Board of Directors.

- Section 4. After Hours Registration: Members shall register at each after-hours event in order for their attendance credit. If unable to register at the after-hours event, they have the week following the after-hours event to do so.
- Section 5. Business Familiarity: Members shall familiarize themselves with the business interests of fellow members to the extent that they recognize opportunities for helping them in a business way.
- Section 6. Employee/Associate Assistance: Members shall solicit through systematic effort the cooperative help of his/her associates and employees in the performance of these duties.

- Section 7. Diligence: Members shall act promptly on all information received, following it up diligently and making every reasonable attempt to turn it into business.
- Section 8. Recommendations: Whenever possible, members shall recommend the services and products of his/her fellow members to friends and business associates.

Members shall handle all recommendations reported to them in such a thorough manner that it will reflect credit on the member recommending their products and service, as well as the membership of the Association as a whole.

- Section 9. Satisfactory Service: Every member of the Association is considered a “Dependable Source of Supply,” and has thereby incurred an obligation to give satisfactory service as to price, quality, quantity, delivery, maintenance, etc., equal to, or superior to that of his competitor.
- Section 10. Preferences: In keeping with the Association’s objectives, members are encouraged to always give fellow members every possible preference in business transactions, other things being equal, and subject to legitimate demands of policy with reference to established business connections.

Article VIII of your bylaws discusses committees and board liaisons. You shall have a membership committee composed of five members whose duties will be to determine, “a. Whether a conflict exists between a prospective member and a current member, b. The nature of the prospective member’s business, its reputation in the community, and other information necessary to educate the Board of Directors that shall vote on prospective members application, and c. The position of the intended designated representative and alternate and their authority within the organization.” You will also have a leads committee appointed by the President. “The purpose shall be to promote leads, determine whether a lead is valid, and report to the Board of Directors any member who fails to comply with the leads requirement of the bylaws.”

You were formed to institute and maintain a method of exchanging and interchanging business information among your members. You will aid members in growing their businesses and exchange information among members at weekly meetings. You have bi-weekly presentations in order to create and encourage cooperation, business efficiency and service to your members as well as to aid businesses to provide better customer service and for growth of the business. You bring members in touch with business opportunities through weekly emails that include business networking activities. The potential networking activities are also discussed at weekly meetings. These activities should increase both the members’ own clientele as well as the members’ network for referral opportunities. Through your networking and referral activities as well as your participation in as an organization in community social and networking events, you encourage the local, national, and foreign trade expansion of your members. Finally, you have group after-hours events to promote a better acquaintance and closer association among your members. This provides members with a better knowledge of the type of business that fellow members engage in.

You sponsor events designed to promote all of your members’ businesses in the community, with an emphasis on the importance of shopping locally. In addition, you maintain both a website and a social media site on Facebook which is used to promote each of your members’ businesses.

You are funded solely through membership dues. Your expenses are incurred to fund activities related to your exempt purpose.

Law

Section 501(c)(6) of the Internal Revenue Code of 1986 provides exemption from federal income tax for business leagues 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 Regulation states 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 56-65, 1956-1 C.B. 199, denied exemption to an organization whose principal activity consisted of furnishing particular information and specialized individual service to its individual members engaged in a particular industry through publications and other means to effect economies in the operation of their individual businesses. By furnishing information to and advertising the products of its members, the organization was performing particular services for its members.

Revenue Ruling 59-391, 1959-2 C.B. 151, held that an organization created for the purpose of exchanging information on business prospects in an attempt to increase sales for members was not entitled to tax exemption as a business league under section 501(c)(6) of the Code. The organization described in this ruling restricted its membership to individuals, firms, associations and corporations, each of which represented a different trade, business, occupation or profession and no one of which was in competition with another. The applicant held weekly meetings, operated a central information service for the exchange of business information among members, encouraged member cooperation and business efficiency, and required members to provide referrals to fellow members. Each member agreed to keep the organization's members informed of business changes which would indicate potential markets for the sale of members' products.

Revenue Ruling 76-409, 1976-2 C.B. 154, denied exemption to an organization whose principal activity was the publication and distribution of an annual directory consisting almost entirely of members' names, addresses, and telephone numbers. The directory was distributed free to those members of the business community who were likely to require the services of the profession. It was held that the publication and distribution of a directory containing the names and addresses of members constituted advertising for individuals, and therefore, was the performance of particular services to members rather than an activity aimed at the improvement of general business conditions.

Application of law

You are not described in section 501(c)(6) of the Internal Revenue Code because you were formed to provide particular services to your members.

You are not described in section 1.501(c)(6)-1 of the Income Tax Regulations because you are not formed to improve the business conditions of one or more lines of business. Rather, your sole purpose is to promote the

expansion and improvement of your member businesses. You achieve this purpose by: a) limiting your membership to specific membership classes with each class representing a specific type of business, b) disallowing membership applications from businesses that would compete with the business of an existing member, and c) requiring members to provide active business leads and referrals to other members.

You are similar to the organization described in Revenue Ruling 56-65 because you are providing particular services to your members. By providing your members with regular business leads and restricting membership to noncompeting classes representing a single line of business, you are promoting the private interests of your member businesses rather than the broad common interests of a particular trade or industry.

Your activities are almost indistinguishable from those of the organization described in Revenue Ruling 59-391 because you restrict your membership to individuals, firms, associations and corporations, each of which represent a different trade, business, occupation or profession and no one of which is in competition with another. Further, your members are required to provide leads and referrals to fellow members. Like the organization described in this ruling, you do not meet the requirements for tax exemption under section 501(c)(6) of the Code because your activities are not directed to the improvement of business conditions of one or more lines of business. Rather, you are operated to serve the private interests of your members.

You are performing particular services for your members in a manner similar to the organization described in Revenue Ruling 76-409. Though you do not publish a directory, you do maintain a website and social media site on Facebook which is used to promote each of your members. Like the organization described in Revenue Ruling 76-409, the services you provide to members constitute particular services and preclude tax exemption under section 501(c)(6) of the Code.

Your Position

You state that you qualify for tax exemption under section 501(c)(6) of the Code because you are an association of persons having the common business interest of improving the business conditions as a whole for your members. To accomplish this goal, topics of an educational nature are discussed at your weekly meetings. The topics discussed are designed to educate members in the operation of their businesses and thereby improve the conditions of each member's line of business. The meetings provide an interdisciplinary forum for the exchange of ideas and all members are invited to participate to help solve problems common to all members. In addition, you state that you sponsor events designed to promote all of your members' businesses in the community, with an emphasis on the importance of shopping locally. Finally, you state that you maintain both a website and a social media site on Facebook, which is used to promote each of your members.

Our Response to Your Position

Although you are promoting the business interests of your members, your activities are not directed to the improvement of business conditions of one or more lines of business as required by section 1.501(c)(6)-1 of the Income Tax Regulations. Rather, you restrict your membership to noncompeting representatives from different trades, businesses, occupations or professions, and you are primarily operated to promote the private interests of your members. Your membership limitations also preclude you from qualifying as a board of trade or chamber of commerce as these types of organization do not limit their membership in this way. While you do conduct various educational activities at your weekly meetings, this does not deter from the fact that your membership structure and business referral activities constitute particular services to your members and preclude tax exemption under section 501(c)(6) of the Code.

Conclusion

The facts clearly show that you are not operated as a business league. Your activities are not directed to the improvement of business conditions of one or more lines of business, or any other purpose defined in section 501(c)(6) of the Code. Rather, your activities and purposes are directed at the improvement of your members' individual businesses.

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

If you don't agree

You have a right to file a protest if you don't agree with our proposed adverse determination. To do so, you must send a statement to us within 30 days of the date of this letter. The statement must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A copy of this letter highlighting the findings you disagree with
- An explanation of why you disagree, including any supporting documents
- The law or authority, if any, you are relying on
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization, or your authorized representative
- One of the following declarations:

For an officer, director, trustee, or other official who is authorized to sign for the organization:

Under penalties of perjury, I declare that I examined this protest statement, 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.

For authorized representatives:

Under penalties of perjury, I declare that I prepared this protest statement, 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.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, *Power of Attorney and Declaration of Representative*, with us if he or she hasn't already done so. You can find more information about representation in Publication 947, *Practice Before the IRS and Power of Attorney*.

We'll review your protest statement and decide if you provided a basis for us to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't provided a basis for reconsideration, we'll forward your case to the Office of Appeals and notify you. 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*.

Where to send your protest

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

U.S. mail:

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

Street address for delivery service:

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

You can also fax your statement and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that he or she received it.

If you agree

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

You can find all forms and publications mentioned in this letter on our website at www.irs.gov/formspubs. If you have questions, you can contact the person listed at the top of this letter.

We sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

Director, Exempt Organizations

Cc: Thomasina F. Moore
Enclosure:
Publication 892