



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

Number: **201540017**
Release Date: 10/2/2015

Date: July 6, 2015

Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

UIL: 501.06-00; 501.06-01

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.

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*



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

Date:
May 7, 2015
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

LEGEND:

UIL:

B =Product Name
D =Franchise Name
Q = Date
S = Geographic Name
t dollars = Dollar Amount

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.

Issues

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

Facts

You were formed on Q as an unincorporated association the date your members adopted your bylaws. Your objectives in your bylaws are to help member stores increase sales and be more successful through the following:

- Cooperation
- Joint activities and leveraging in
 - B brand awareness
 - Promotions
 - Marketing/sales

- Charity sponsorships
- Best practices
- Market knowledge
- Cost Reductions
 - Material costs
 - Advertising

Your membership is open to all B store owners in the S areas who are in good standing with D, a corporation of franchisee owners. Membership is specific to store ownership and when a store owner changes, the membership will change to the new owner. Only member stores will be listed on advertisements, websites, or other promotional materials. Membership dues are t dollars monthly.

The member-elected officers and committee chairs make up the Board of Directors. The Board of Directors has authority to transact all operational business and reports to the general membership at regular meetings. The general membership, however, approves all non-operational matters.

You spend 50 percent of your time reporting business trends and implementing strategies that grow members' businesses and increase their revenues. You conduct monthly member meetings where you identify and exchange ways to produce, market, and sell the products and services.

You spend forty percent of your time on planning and conducting workshops that provide best practices on members; businesses operations, marketing, and sales aspects of members' businesses, including exchanging information on joint business partners and resources available to members. In these workshops and exchanges you compare current practices and identify processes and business efficiencies to improve performance and profits that can be used by all the membership. You spend 40 percent of your time on these workshops and exchanges.

You spend the final 10% of your time addressing and discussing hiring personnel and compensation issues within your members' businesses.

All of your revenue comes from membership dues. You identify all of your expenses as marketing expenses. Finally, upon dissolution of the association, the remaining assets and funds will be distributed equally among the current members in good standing that have been in the group at least twelve months.

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 Regulations states that a business league is an association of persons having some common business interests, 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. The Regulations further state that the activities of a business league 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 members.

For exemption purposes, a line of business is a trade or occupation, entry into which is not restricted by a patent, trademark, or similar device which would allow private parties to restrict the right to engage in the business. A "segment" of a line of business is not considered a line of business under section 501(c)(6) for the Code.

Revenue Ruling 55-444, 1955-2 C.B. 258, states that an organization formed to promote the business of a particular industry that carries out its purposes primarily by conducting a general advertising campaign to encourage the use of products and services of the industry as a whole is exempt from tax notwithstanding that such advertising to a minor extent constitutes the performance of particular services for its members.

Revenue Ruling 58-294, 1958-1 C.B. 244, holds that an association of licensed dealers in a certain type of patented product did not qualify as a business league. The association in this ruling owned the controlling interest in the corporation that held the basic patent of the product, it engaged mainly in furthering the business interests of its member dealers, and it did not benefit businesses that manufactured competing product of the same type covered by the patent.

Revenue Ruling 67-77, 1967-1 C.B. 138 also ruled that an association of dealers selling a particular make of automobile that engaged in financing general advertising campaigns to promote the sale of that particular make was not exempt because it was performing particular services for its members rather than promoting a line of business, i.e., the automotive industry as a whole. In this ruling, membership in the organization was restricted to dealers who held franchises for the sale of the automobiles designated in the area.

In Revenue Ruling 68-182, 1968-1 C.B. 263, the Service's position was stated that organizations promoting a single brand or product within a line of business do not qualify for exemption under section 501(c)(6) of the Code.

In *National Muffler Dealers Association, Inc. v. United States*, 440 U.S. 472, Ct. D. 1997, 1979-1 C.B. 198 (1979), the Court held that an organization of muffler dealers franchised by Midas International Corporation did not qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Code. The organization's purpose was too narrow to satisfy the line of business test of section 1.501(c)(6)-1 of the regulations.

Application of Law

You are not described in Section 501(c)(6) of the Code because you are not organized and operated as a business league.

You are not described in Section 1.501(c)(6)-1 of the Income Tax Regulations because your activities are directed to perform services for the benefit of a particular franchise business rather than to the improvement of business conditions of one or more lines of business.

You are not similar to the organization described in Revenue Ruling 55-444 because your advertising and promotion campaign is specific to the one patented product and service sold by your members rather than to encourage the use of products and services of the industry as a whole.

You are similar to the organizations described in Revenue Rulings 58-294, and 67-77, because your activities further the business interests of your member franchisees of a single brand or product. You perform particular

services for your members that are meant to increase their individual sales and revenues rather than benefit the industry as a whole or improve the business conditions of the entire industry.

You are like the organizations described in Revenue Rulings 68-182 and 83-164, because your activities are exclusively directed for specific franchisees. You were established for member franchisees to increase sales and be more successful through joint activities and leveraging in B brand awareness, promotions and marketing and sales. Because you are only improving business conditions in a segment of line of a business, you are precluded from exemption under Section 501(c)(6).

You are similar to the organization described in National Muffler Dealers Association, because your activities serve members who are specific franchise owners. You provide particular services toward particular franchisees which does not represent one or more line of businesses. Therefore, you are precluded from exemption under Section 501(c)(6).

Applicant's Position

You declined to provide your position during the initial application processing.

Conclusion

You do not meet Section 501(c)(6) because your benefits are directed toward a segment of line of a business because your members are limited to franchise owners of a particular brand. Your activities are not directed to the improvement of business conditions of one or more lines of business, rather they are providing particular services for your individual members. Accordingly, we conclude that you are not exempt under 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.

Sincerely,

Director, Exempt Organizations

Enclosure:
Publication 892