

Internal Revenue Service

Appeals Office
4330 Watt Avenue SA 7890
Sacramento, CA 95821-7012

Release Number: **201726014**
Release Date: 6/30/2017
Date: April 6, 2017
UIL Code: 501.06-01

Department of the Treasury**Employer Identification Number:****Person to Contact:**

Employee ID Number:
Tel:
Fax:

Tax Periods Ended:**Certified Mail**

Dear _____

This is a final determination that you do not qualify for exemption from Federal income tax under Internal Revenue Code (the "Code") section 501(a) as an organization described in Code section 501(c)(6) for the tax periods above. Your determination letter dated _____ is revoked.

Our adverse determination as to your exempt status was made for the following reason(s):

Organizations exempt from tax under section 501(c)(6) of the Internal Revenue Code, including business leagues formed to promote the common interests of members engaged in a particular line of business, must not be organized for profit and no part of the net earnings may inure to the benefit of any private shareholder or individual. A substantial portion of your activities includes the performance of regular services for individual members, including the administration of rebates of vendors to your individual members' businesses, rather than serving the industry as a whole or seeking to improve business conditions for the industry as a whole. See Treas. Reg. 1.501(c)(6)-1. Therefore, you are not an organization described in Code section 501(c)(6).

You do not promote the advancement of any particular line of business or the improvement of business conditions; rather you serve the vendors and individual businesses of your members. Therefore, you do not qualify for exemption as an organization described in section 501(c)(6) of the Code.

You are required to file Federal income tax returns on Forms 1120. File your returns with the appropriate Internal Revenue Service Center per the instructions of the return. For further instructions, forms, and information please visit www.irs.gov.

We will make this letter and the proposed adverse determination letter available for public inspection under Code section 6110 after deleting certain identifying information. We have provided to you, in a separate mailing, Notice 437, *Notice of Intention to Disclose*. Please review the Notice 437 and the documents attached that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437.

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination letter was mailed to you. Please contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment by referring to the enclosed Publication 892.

You may write to the courts at the following addresses:

United States Tax Court
400 Second Street, N.W.
Washington, D.C. 20217

U.S. Court of Federal Claims
717 Madison Place, N.W.
Washington, D.C. 20439

U.S. District Court for the District of Columbia
333 Constitution Ave., N.W.
Washington, D.C. 20001

Processing of income tax returns and assessments of any taxes due will not be delayed if you file a petition for declaratory judgment under section 7428 of the Internal Revenue Code.

You may also be eligible for help from the Taxpayer Advocate Service (TAS). TAS is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 1-877-777-4778.

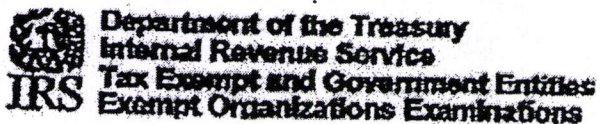
If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely Yours,

Appeals Team Manager

Enclosure: Publication 892

cc:



Date: *May 31st, 2016*

Taxpayer Identification Number:

Form:
990 Return
Tax Year(s) Ended:
December 31, 20
Person to Contact/ID Number:

Contact Numbers:
Telephone:
Fax:
Manager's Name/ID Number:

Manager's Contact Number:

Response due date:
July 1st, 20

Certified Mail – Return Receipt Requested

Dear

Why you are receiving this letter

We propose to revoke your status as an organization described in section 501(c)(6) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

What you need to do if you agree

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(6).

After we issue the final revocation letter, we'll announce that your organization is no longer eligible for contributions deductible under section 170 of the Code.

If we don't hear from you

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

Effect of revocation status

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

What you need to do if you disagree with the proposed revocation

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You also may file a protest with the IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information including a statement of the facts, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

Contacting the Taxpayer Advocate Office is a taxpayer right

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't 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:


Internal Revenue Service
Office of the Taxpayer Advocate
300 E. 8th St., Stop 1005-AUS,
Austin, TX 78701
Phone: 512-499-5875
Fax: 855-829-1827

For additional information

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,



Margaret Von Lienen
Director, EO Examinations

Enclosures:

Report of Examination
Form 6018
Publication 892
Publication 3498

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended December 31, 20

ISSUE:

- Whether _____ qualifies for exemption as an organization described in the Internal Revenue Code (IRC) Section 501(c)(6).

FACTS:

_____ has never applied for exemption with the IRS _____ is filing a Form 990 indicating it is described in IRC 501(c)(6). The BMFOLO shows a current status code of "36" and subsection of 06.

A review of the Forms 990 for _____, _____, and _____ suggests that the organization primary activity is negotiating bulk trade purchases and negotiated vendor rebates with _____ and others.

A review of the organization's website. The organization aims and objectives is to encourage and foster the idea of unity, goodwill, and friendship as a basis to work together for developing, advancing and improving the economic, financial, business and social interests of its members. The organization provides its members bargaining power and act as a bargaining agent for and on their behalf to effectively negotiate and contract for better deals, and better terms and conditions of doing business, with vendors, suppliers and service providers, with whom its members do business; to act as a disbursing agent for equitably and fairly disbursing the benefits amongst its members received for and on their behalf from any source(s).

LAW ISSUE #1:

Internal Revenue Code (IRC) § 501(a) provides tax-exempt status to organizations described in section 501(c) or (d) or section 501(a) unless such exemption is denied under section 502 or 503. In general, section 501(c)(3) organizations are entities that are organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, no part of the net earnings of which inures to the benefit of a private individual, and no substantial part of the activities of which involves certain lobbying or political activities.

IRC § 501(c)(6) organizations consist 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.

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Treas. Reg. section 1.501(c)(6)-1 provides 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.

In order to qualify for exemption as a business league under Treas. Reg. § 1.501(c)(6)-1, an exempt organization must meet all of six tests:

- (1) Persons having a common business interest
- (2) Whose purpose is to promote the common business interest
- (3) Not organized for profit
- (4) That does not engage in a business ordinarily conducted for profit
- (5) Whose activities are directed at improvement of one or more lines of business as distinguished from the performance of particular services
- (6) Of the same general class as a chamber of commerce or a board of trade

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 interests, the purpose of which is to promote such common interest and not to engage in a regular business other 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 in one or more lines the business as distinguished from the performance of particular services for individual members.

Rev. Rul. 56-65, 1956-1 C.B. 199, holds that a local organization whose principal activity consists of furnishing particular information and specialized individual services to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses, is performing particular services for individual persons. Such organization, therefore, is

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not entitled to exemption under section 501(c)(6) of the Code as a business league even though it performs functions that are beneficial to the particular industry and the public generally. The activities of the organization consisted of the maintenance of plan rooms for the convenience of members, where plans and specifications for local construction projects, together with the names of general contractors bidding on specific projects, were filed.

In Rev. Rul. 61 170, 1961 2 C. B. exemption under section 501(c)(6) for the Code was denied to organizations which maintain employment register for its members. The Ruling concluded that assisting the members to obtain employment was particular services for the individual persons as opposed to improvement other general business conditions of the profession.

Rev. Rul. 67-77, 1967-1 C.B. 138, denied exemption under section 501(c)(6) of the Code to an organization composed of dealers in a certain make of automobile in a designated area, holding that that organization performed particular services for its members and, thus, did not engage in activities for the improvement of business conditions in the automotive industry as a whole. The organization was organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by dealer members, the sale of that make of automobile.

Rev. Rul. 68-182, 1968-1 C.B. 263, holds that organizations promoting a single brand or product within a line of business do not qualify for exemption from income tax under section 501(c)(6) of the Code.

Rev. Rul. 68 264, 1968 1 C.B. 264 defines a particular service for the purposes of section 501(c)(6) the Code as being activity that serves as a convenience or economy to the members of the organization in the operation of their businesses.

Rev. Rul. 74 81, 1974 1 C.B. 135 holds that a nonprofit organization formed to promote the business welfare and interests of persons engaged in the contracting trade and related industries and whose principal activity is to provide its members with group workmen's compensation insurance which was underwritten by a private insurance company is not entitled to exemption under section 501(c)(6) to the Code. By providing group workmen's compensation insurance for its members the organization relieves the members of obtaining this insurance on an individual basis, resulting in a convenience in the conduct of their businesses. Therefore, the organization was rendering particular services for individual persons as distinguished from the improvement of business conditions in the industry in general.

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In Rev. Rul. 86 98, 1986 2 C. B. exemption under section 501(c)(6) of the Code was denied to an organization which provides individual practice services for outside organizations. The ruling concluded that the primary activity of the organization, to service the bargaining agent between its members and the outside organizations and turn over compensation to its members, constituted renderings particular services for individuals as distinguished from the improvement of business conditions.

TAXPAYER'S POSITION:

Unknown at this time.

GOVERNMENT'S POSITION:

Issue #1:

In order to qualify for exemption as a business league under Treas. Reg. § 1.501(c)(6)-1, an exempt organization must meet all of six tests:

- (1) Persons having a common business interest
- (2) Whose purpose is to promote the common business interest
- (3) Not organized for profit
- (4) That does not engage in a business ordinarily conducted for profit
- (5) Whose activities are directed at improvement of one or more lines of business as distinguished from the performance of particular services
- (6) Of the same general class as a chamber of commerce or a board of trade

Currently, 's primary activities are to provide its members bargaining power and act as a bargaining agent for and on their behalf to effectively negotiate and contract for better deals, and better terms and conditions of doing business, with vendors, suppliers and service providers, with whom its members do business; to act as a disbursing agent for equitably and fairly disbursing the benefits amongst its members received for and on their behalf from any source(s).

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 interests, the purpose of which is to promote such common interest and not to engage in a regular business other 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 in one or more lines the business as distinguished from the performance of particular services for individual members.

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The providing of a service to members as a primary activity is not consistent with a business league described under 501(c)(6).

It's the government's position that does not meet all six tests to qualify for exemption as a business league under Treas. Reg. § 1.1501(c)(6)-1.

CONCLUSION

It is the IRS's position that does not qualify for exemption from federal income tax under IRC § 501(c)(6).

The taxpayer has also been made aware of the organization's Form 1120 filing requirement as of January 1, 20

If you agree to this conclusion please sign the attached Forms and Form 1120 is required for examination year, 20 and subsequent year, 20

If you disagree please submit a statement of your position.