

Internal Revenue Service

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

Department of the Treasury

Employer Identification Number:

Release Number: **201836009**

Release Date: 9/7/2018

Date: June 12, 2018

Person to Contact:

Employee ID Number:

Tel:

Fax:

UIL: 501.06-01

Certified Mail

Dear

This is a final adverse 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).

The adverse determination was made for the following reason(s):

Your organization does not qualify for exemption under Section § 501(c)(6) of the Code because your organization under Treasury Regulation 1.501(c)(6)-1 is not directed to the improvement of business conditions of one or more lines of business. It provides particular services for its members.

You are required to file Federal income tax returns on Forms 1120. File your return 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, NW
Washington, DC 20217

US Court of Federal Claims
717 Madison Place, NW
Washington, DC 20005

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

Processing of income tax returns and assessments of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Code.

You also 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 get prompt and proper handling. If you want Taxpayer Advocate assistance, please contact the Taxpayer Advocate for the IRS office that issued this letter. You may call toll-free, 1-877-777-4778, for the Taxpayer Advocate or visit www.irs.gov/advocate for more information.

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

Sincerely Yours,

Enclosure: Publication 892



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

Date: Aug 17 2017

Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

R = Company

S = Company

T = Company

V = State

W = Date of formation

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.

Issues

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

Facts

You were formed in the state of V on date W.

You are a membership organization. Your membership agreement states that your purpose is to address concerns and promote the interests of your members arising from royalty payments to lessors holding T form leases entered with R and/or S. These concerns include improper deductions taken from royalty payments owed to the owner of the minerals who entered into the leases with R and/or S using a T lease form.

You collect member dues and use those funds to hire legal counsel to represent all your members and arrange for audits of the royalty payments specific to their individual gas wells. Your board will primarily be mediators between your lawyers and your members. You will host meetings to inform your members about your case progress as necessary.

Your members will seek to collectively address issues to minimize their costs for issues that promote and protect their interests. You hire legal and accounting support so you can collectively address or assist in the costs incurred on behalf of your members.

Your said your "largest form of financial support will be through membership assessments as T lease form holders join to protect their own mineral assets." The secondary source of income will come from other organizations which support the protection of lease holders' rights and enforcements of the lease contract restrictions.

Law

Section 501(c)(6) of the Code 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.

Treasury Regulation Section 1.501(c)(6)-1 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.

Rev. Rul. 56-65, 1956-1 C.B. 199, denied exemption to a local 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. These services include, but not limited to, promoting efficiency among members by producing a publication that provides a list of specific projects from whom bids and quotations may be obtained by members.

Rev. Rul. 73-411, 1973-2 C.B. 180, held 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, and whose activities are directed to promoting the general business interests of its members, does not qualify as a business league or chamber of commerce under Section 501(c)(6) of the Code. The organization's activities were not directed at improvement of business conditions of one or more lines of business or business conditions of any community as a whole within the meaning of Section 501(c)(6).

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

In the American Automobile Association v. Commissioner, 19 T.C. 1146 (1953), the Tax Court held that a national association of individual auto owners and affiliated auto clubs, did not qualify as a business league because the Association's principal activities consisted of securing benefits and performing particular services for members.

In Indiana Retail Hardware Assn., Inc. v. United States, 177 Ct. Cl. 288, 366 F. 2d 998 (1966), the Court held that when conducting particular services for members is a substantial activity of an organization, the organization will be precluded from exemption under Section 501(c)(6) of the Code. Over 58% of the

organization's total income was derived from its performing particular services for individuals as convenience and economy in their businesses and from its other income-producing activities.

In National Muffler Dealers Association v. United States, 440 U.S. 472 (1979), the Supreme Court held that an association of a particular brand name of muffler dealers did not qualify for Section 501(c)(6) status because it was not engaged in the improvement of business conditions of a line of business.

Application of law

You were formed so that your members could save money by collectively seeking legal and accounting support as it relates to specific types of leases they hold. You are not described in Section 501(c)(6) of the Code and Treas. Reg. Section 1.501(c)(6)-1 because you were formed to provide particular services to your members, which precludes you from exemption.

Like the organizations described in Rev. Rul. 56-65 and Rev. Rul. 76-409, you are providing services to your members. You collect member dues which are used to hire legal counsel to represent all your members and arrange for audits of the royalty payments specific to their individual gas wells. Like the organizations described in American Automobile Association and Indiana Retail Hardware Assn, you secure benefits and perform particular services for your members. You will collectively address issues to minimize costs for your individual members on issues that promote and protect their interests, which precludes exemption under Section 501(c)(6) of the Code.

You are similar to the organizations described in Rev. Rul. 73-411 and National Muffler Dealers Association. Your activities do not improve the business conditions of one or more lines of business or business conditions of the community. Instead, you serve the private interests of your individual members through the services you provide.

Conclusion

You are not an association of persons promoting one or more lines of business, and your activities constitute specific services to members. Accordingly, you do not qualify for exemption from federal income tax 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*.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court at a later date because the law requires that you use the IRS administrative process first (Section 7428(b)(2) of the Code).

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,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosure:
Publication 892