



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

Release Number: **201906014**
Release Date: 2/8/2019
UIL Code: 501.06-00

Date:
November 16, 2018
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,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

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:
September 28, 2018
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

P = State 1
Q = Date of formation
R = Insurance Company
S = Date of registration as foreign corporation in State 2
T = State 2
X = Program name

UIL:
501.06-00

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 incorporated in P on Q. According to your Articles of Incorporation, you are organized and operated exclusively for educational purposes in the field of life insurance and related endeavors. You are open to all persons who are agents, or advisors, of R, an insurance company. You are limited to persons who sell R products and your purposes are non-profit in nature, to be operated solely for educational purposes or recreational or any other proper non-profit purpose.

On S you filed as a foreign corporation in the state of T. Your Certificate of Registration states that you are a business league comprised of full time agents of R which provides training and education to its member agents who work in the field of insurance sales, services and procedures.

Your Bylaws state that all fulltime agents of R are eligible to be members of the association. Members of the association in each R general agency shall elect an agency representative for a term to be determined at the time of said election. The Agency Representatives shall elect the association's officers and the members of the Executive Committee at the annual meeting.

Your members are not R employees or captive agents. They are not obligated to sell R products exclusively and do sell many other carriers, investments, planning, etc. Members include advisors of “sister companies”, those companies and their respective advisor networks that R has acquired. You provided a list of additional carriers and products of other insurance companies that your member advisors can and do sell.

You host three primary meetings during each fiscal year; the summer meeting held prior to R’s Leaders Conference, a fall meeting, and a winter meeting. Your Executive Committee also holds monthly teleconference meetings.

The summer meeting takes place over a few days and normally starts with a meeting with the officers followed by a meeting with officer and chairs (entire Executive Committee). These meetings include reviewing the association’s formal business plan, financials, membership, communications, operating procedures for newly assigned members of the committee and preparing for the meeting with R’s Senior Leadership the following day. The next meeting during the summer session is a day-long event with the Executive Committee, R General Agents Association and R’s Senior Leadership. The agenda includes discussions around each of the individual committee focuses for the year, your concerns as they relate to advisors, the ease of doing business with R, and a plan for how you will partner with R’s Leadership during the coming year. The summer meeting also includes a meeting for all your Agency Representatives, who are located across the United States and serve as stewards for your association, representing you to all members. You hear from R’s CEO and provide updates on your activities and review the role and responsibilities of agency representatives. New officers and chairs are elected and new committees are formed for the coming year.

The fall meeting is a 2-day business meeting for all officers, chairs and committee members. Each committee works with their respective home office liaisons on specific initiatives for the year.

The winter meeting is held for officers, chairs, select members of R’s senior leadership team and spouses. This five-day meeting allows an opportunity for chairs to report on committee progress on goals identified at the fall meeting. R Senior Leadership shares the company’s goals and key initiatives as they relate to the X channel made up of R advisors. The Executive Committee and Senior Leadership work together to support planned priorities.

Your Executive Committee’s monthly meetings are meant to keep the members up-to-date on committee progress, changes in company policy or industry rules or regulations. Committee Chairs also hold monthly teleconferences with their respective committees. Executive Committee members as well as committee members participate in an educational seminar that R hosts a few times a year. The seminar provides both new and experienced advisors with a variety of sessions designed to give useful strategies for selling, marketing and managing a financial advisor’s practice.

You stated that you are continuously looking for ways you can provide value to your members that will benefit their careers as R advisors. For example, you plan to sponsor industry speakers at some of the main R events that your members attend. You recently started a program to help members obtain the resources they need as they progress through their careers at R and prepare for difficult life events.

You provided a copy of your newsletter. The newsletter states your mission is to “advocate for and inspire R financial professionals, advise our company on client and agent interests and strengthen our industry for the future.” According to the newsletter, for over a century, you have maintained an open dialogue with the home

office to help the company grow. The newsletter lists the various committees and the purposes they serve, including but not limited to: ease of doing business, field technology, marketing the R brand, and how to enhance R product offerings and service to advisors and clients.

The website pages you submitted state that you are a representative group of R agents who partner closely with the home office to advance the interests of not only agents, but the policyowners and R. The website states that no other financial services company maintains such a relationship with its field agents.

According to the annual report you provided, other than a minimal amount of interest income, your revenues are derived from agent dues. Your largest expense is for conferences and meetings, but you also incur expenses for administrative items, payroll, officer allowances and taxes.

Law

Section 501(c)(6) of the Code provides for the exemption from federal income tax 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.

Treasury Regulation 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.

Rev. Rul. 74-147, 1974-1 C.B. 136, holds that an organization whose members represent diversified businesses that own, rent, or lease digital computers produced by various manufacturers and that was formed to provide a forum for the exchange of information leading to the more efficient utilization of computers by its members, and thus improving the overall efficiency of the business operations of each, qualifies for exemption under Section 501(c)(6) of the Code.

Rev. Rul. 83-164, 1983-2 C.B. 95, describes an organization whose purpose is to conduct conferences for the dissemination of information concerning computers manufactured by the M Corporation. Although membership is composed of various businesses that own, rent or lease computers made by the M Corporation, membership is open to businesses that use other brands of computers. At the conferences, presentations are given primarily by representatives of the M Corporation, as well as by other experts in the computer field. Problems related to members' use of M Corporation computers are also discussed and current information concerning their products is also provided. The revenue ruling holds that by directing its activities to businesses that use computers made by one manufacturer, the organization is improving business conditions in a segment of a line of business rather than in an industry as a whole and is not exempt under Section 501(c)(6) of the Code. The revenue ruling concludes that by providing a focus on the products of one particular manufacturer, the organization is providing M with a competitive advantage at the expense of manufacturers of other computer brands.

In National Muffler Dealers Association v. U.S., 440 U.S. 472 (1979), the Supreme Court held that an association of a particular brand name of muffler dealers did not qualify for exemption because the association was not engaged in the improvement of business conditions of a line of business. This effectively settled a

question raised in Pepsi-Cola Bottlers' Association, Inc. v. United States, 369 F.2d 250 (7th Cir. 1966), where the court held that an association of the bottlers of a particular brand of soft drink was promoting a line of business. The government had contended that it was not promoting a line of business since the entire soft drink industry rather than a particular brand was the line of business. The Service then reiterated its position in Rev. Rul. 68-182, 1968-1 C.B. 263.

In Guide International Corporation v. U.S., 948 F.2d 360 (7th Cir. 1991), aff'g No. 89-C-2345 (N.D. Ill. 1990), the Court concluded that an association of computer users did not qualify for exemption under Section 501(c)(6) of the Code because it primarily benefited users of IBM equipment and any benefit to its members and other data processing companies who use information prepared by Guide is incidental.

Application of law

According to Treas. Reg. Section 1.501(c)(6)-1, to be described in Section 501(c)(6) of the Code you must be an association of persons having some common business interest, and your purpose must be to promote the common business interest of your members. In addition, your activities should be directed to the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons. Your membership has a common business interest in the sales of R products, a common business interest that it is your purpose to promote. Your activities, however, are not directed to improvement of business conditions in one or more lines of business, but only to a segment of a line of business. The selling of insurance and related products of one or more insurance companies by independent agents, or advisors, is a line of business. Your membership, however, is closed to insurance agents who do not sell the products of R, and consequently your activities are not directed to improvement of business conditions for members of the insurance agency industry outside your membership. Your activities, therefore, are directed to the improvement of conditions in a segment only of your industry or line of business.

You are unlike the organization described in Rev. Rul. 74-147 because that organization's activities are directed to improving the skill of persons in all lines of business in using computers of all makes and kinds. You have failed to meet the line of business test because you have primarily served only a "segment of a line," like the bottlers of one type of soft drink (Rev. Rul. 68-182), users of a single brand of computer (Rev. Rul. 83-164 and Guide International Corporation), franchisees of one brand of muffler (National Muffler Dealers Association). Each of these groups promotes a segments of an industry to the disadvantage of competitors in the same industry. Although there may be incidental benefits to other agents/advisors from your activities, your primary purpose is to benefit those who sell R products.

Your position

It is your position that, although your activities are built around a particular brand of insurance product, because your membership sells products of other companies within the industry, that you are not merely representing one segment of an industry as described in Rev. Rul. 83-164.

You state that events, conferences and meetings provide a benefit to the industry as a whole. The annual seminars are all centered around advisors' development. Topics include regulatory changes, industry changes and standards, peer to peer best practices, practice management, industry trends, and client psychology. By serving advisors who sell R products, you are also making the entire industry of advisors better.

Our response to your position

While your membership may sell products of a variety of carriers, that membership is limited to agents selling R and affiliated products, and your programs are specifically designed to increase your members' skills in handling the R affiliated products. Like Guide International, you are primarily operated to benefit members of the segment of the line of business that deals in R and its affiliated products.

Conclusion

Upon consideration of your application, we have determined that you do not qualify for exemption under Section 501(c)(6) of the Code because your activities are not directed to the improvement of business conditions in one or more lines of business, but merely to a segment of a line of business.

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.

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

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosure:
Publication 892

cc: