



Department of the Treasury  
Internal Revenue Service  
Independent Office of Appeals  
2525 Capitol Street, Suite 201  
Fresno, CA 93722

Date: NOV 18 2019  
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Person to contact:  
Name:  
Employee ID number:  
Telephone:  
Fax:  
Employer ID number:  
D  
Uniform issue list (UIL):  
501.06-00, 501.06-01

Number: **202007021**  
Release Date: 2/14/2020

A  
B

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

We made the adverse determination for the following reasons:

You are not an association of persons promoting one or more lines of business and your activities constitute specific services to members.

You're required to file federal income tax returns on Forms 1120, U.S. Corporation Income Tax Return. Mail your form to the appropriate Internal Revenue Service Center per the form's instructions. You can get forms and instructions by visiting our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676).

We'll make this letter and the proposed adverse determination letter available for public inspection under Section 6110 of the Code after deleting certain identifying information. We 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 can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. Contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment. You can write to the courts at the following addresses:

<b>United States Tax Court</b>	<b>US Court of Federal Claims</b>	<b>US District Court for the District of Columbia</b>
400 Second Street, NW	717 Madison Place, NW	333 Constitution Avenue, NW
Washington, DC 20217	Washington, DC 20005	Washington, DC 20001

Note: We will not delay processing income tax returns and assessing any taxes due even if you file a petition for declaratory judgment under Section 7428 of the Code.

Please refer to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status, for more information about the Appeals process.

You also have the right to contact 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](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

TAS assistance is not a substitute for established IRS procedures, such as the formal appeals process. TAS 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.

If you have questions, contact the person at the top of this letter.

Sincerely,

Appeals Team Manager

Enclosures:  
Publication 892

cc: E



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

Date:  
May 10, 2018  
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

**Legend:**

B= Date of formation

C= State of formation

f dollars = Quarterly membership dues

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 formed on B in the state of C as a nonprofit mutual benefit corporation. Your Articles of Incorporation state that your corporation is a business network group whose purpose is to exchange business leads.

You describe yourself as an exclusive category business networking group. Your group accepts only one member from each type of business. Members are natural persons. Any new member must be approved by at least \_\_\_\_\_ percent of members.

Your members increase their business by obtaining leads and referrals from other members, networking with each other, and business coaching. You hold breakfast meetings weekly and mixers every \_\_\_\_\_ months. At the breakfast meeting members make presentations about their businesses. The mixer is often held at a member's business location so that the attendees can familiarize themselves with the member's business. Regular attendance at meetings is required; if a member is absent \_\_\_\_\_ times in a quarter, the board may dismiss that member. A \_\_\_\_\_ manages lead collection during general meetings, documents leads or one-on-ones

received, and maintains a database of leads received that shows how many and what types of leads each member has given.

Your proposed revenue is from membership dues of f dollars per quarter. The dues cover the meetings space, food provided at the meeting places and other operating expenses.

## **Law**

Section 501(c)(6) of the Code exempts from federal income tax business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues which are 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 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. 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. 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.

Rev. Rul. 59-391, 1959-2 C.B. 151, holds an organization that is composed of individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession is not entitled to exemption as a business league under Section 501(c)(6) of the Code. It was created for the exchange of information on business prospects and has no common business interest other than a desire to increase sales of members. Nor could the diversity of membership's interest be explained away by a comparison with the business interests of the members of a local board of trade or a chamber of commerce.

Rev. Rul. 73-411, 1973-2 C.B. 180, in discussing the exempt status of a shopping center merchants' association under Section 501(c)(6) of the Code, describes in detail the history of Section 501(c)(6) and the types of organizations described therein. In the case of a chamber of commerce or similar organization, the common business interest required under Treas. Reg. Section 1.501(c)(6)-1 is usually the general economic welfare of a community. Membership is voluntary and open generally to all business and professional men and women in the community. The revenue ruling states that it has been accepted that an organization seeking exemption from federal income tax under Section 501(c)(6) as a chamber of commerce or board of trade must be one whose efforts are directed at promoting the common economic interest of all the commercial enterprises in a given trade community. The revenue ruling also defines trade associations or business leagues as similar to chambers of commerce or boards of trade, except that the former serve only the common business interests of the members of either a single line of business or closely related lines of business within a single industry.

In *Indiana Retail Hardware Assn., Inc. v. United States*, 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 percent 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.

### **Application of law**

You are not a business league as described in Section 501(c)(6) of the Code. Contrary to Treas. Reg. Section 1.501(c)(6)-1, you are not an association of persons with common business interests because your membership is composed of one representative from each industry in your area and has no common business interest.

You are like the organization in Rev. Rul. 59-391 in that your members are from different industries and have no common business interest other than a desire to increase sales of members. Like that organization you were created for the exchange of information benefiting your members exclusively. Your members are expected to provide leads to each other. You educate the members about each others' businesses through presentations at weekly meetings and by holding your mixers at member business locations.

Neither are you a Chamber of Commerce as described in Rev. Rul. 73-411, because membership in and enjoyment of privileges in your organization is restricted or limited to a select number of entities, rather than voluntary and open generally to all entities within a community.

Like the organizations described in Rev. Rul. 56-65 and *Indiana Retail Hardware Assn., Inc. v. United States*, your activities do not improve the business conditions of one or more lines of business or business conditions of any community. Instead, you furnish particular information and specialized individual services, in the form of business leads and referrals, to your individual members

### **Conclusion**

Based on the information provided, you are not an association of persons promoting one or more lines of business and your activities constitute specific services to members. You have no common business interest other than a mutual desire to increase the individual sales of your members. You were formed to serve the private interests of your 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](http://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: