



**Department of the Treasury
Internal Revenue Service**

P.O. Box 2508
Cincinnati, OH 45201

Number: **202009025**
Release Date: 2/28/2020

Date:
December 4, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

UIL: 501.00-00, 501.04-00

Dear _____ :

This letter is our final determination that you don't qualify for tax-exempt status under Section 501(c)(4) 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*



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

Date:
 October 16, 2019
 Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B = State
 C = Date
 D = Organization
 E = Date
 f dollars = Amount

UIL:

501.00-00
 501.04-00

Dear _____ :

We considered your application for recognition of exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a). We determined that you don't qualify for exemption under IRC Section 501(c)(4). This letter explains the reasons for our conclusion. Please keep it for your records.

Issues

Do you qualify for exemption under IRC Section 501(c)(4)? No, for the reasons stated below.

Facts

You were formed as a corporation in the state of B on C. Your Articles of Incorporation state that you are formed for the purpose of operating a referral networking group.

You applied for exempt status by filing Form 1024-A requesting exemption under IRC Section 501(c)(4). Previously, you were never formally recognized as exempt, but you were subsequently automatically revoked for failure to file Form 990 for three consecutive tax years as of E.

According to the description of activities in your application and attachments, you are a group of _____ . Members meet with _____ . You are affiliated with D, a global business networking organization. Your membership offers _____

You indicated that you are a business networking organization and that as part of this networking, each member will spend time giving presentations to other members to educate about their business. Each week, members _____

give a one-minute presentation about their business and one member gives a 10-minute presentation about their business. The goal of the presentations is to help all of the other members understand their business and assist in referring clients to that individual. In addition, members are provided with opportunities to attend training sessions on how to give the presentations, how to give referrals, and to help others understand their business to assist in obtaining referrals.

All members of the chapter participate in the meetings and have the opportunity to attend training sessions. The meetings are currently held once a week, except holidays. The weekly meetings are generally 90 minutes long and at least half the meeting is spent undertaking the presentation and networking activities described above.

Members pay annual dues of approximately f dollars and monthly fees to cover the costs related to the weekly breakfast networking events. All your funds are spent on the meetings and for social events.

Law

IRC Section 501(c)(4) provides for the exemption from federal income taxation of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Treasury Regulation Section 1.501(c)(4)-1(a)(1) states a civic league or organization may be exempt as an organization described in Section 501(c)(4) if it is not organized or operated for profit and it is operated exclusively for the promotion of social welfare.

Treas. Reg. Section 1.501(c)(4)-1(a)(2)(i) states that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

Revenue Ruling 73-349, 1973-2 C.B. 179, described an organization formed to purchase groceries for its membership at the lowest possible prices on a cooperative basis. This organization was not exempt from tax as a social welfare organization under IRC Section 501(c)(4) because the organization was operated primarily for the private benefit of members and any benefits to the community are not sufficient to meet the requirements of the regulations that the organization be operated primarily for the common good and general welfare of the people of the community.

Rev. Rul. 73-306, 1973-2 C.B. 179, provides that an organization formed for the purpose of promoting the common interest of tenants who reside in a particular apartment complex does not qualify for exemption under IRC Section 501(c)(4). The organization represented its member-tenants in negotiations with the management of the complex to secure better maintenance and services, as well as reasonable rents. The ruling holds that the organization was not described in Section 501(c)(4) because it operated essentially to benefit its members and, thus, was not primarily engaged in activities that promote the common good and general welfare of the community.

Rev. Rul. 75-199, 1975-1 C.B. 160, held that where the benefit from an organization is limited to that organization's members (except for some minor and incidental benefit to the community as a whole), the organization is not operated exclusively for the promotion of social welfare within the meaning of IRC Section 501(c)(4).

Rev. Rul. 78-132, 1978-1 C.B. 157, found a community cooperative organization formed to facilitate the exchange of personal services among members was operating primarily for the private benefit of its members and was not exempt from tax as a social welfare organization under IRC Section 501(c)(4). The fact that payments for services were made in kind and did not involve a monetary exchange did not derogate from the economic benefits accruing to members. Any benefits to the community were not sufficient to meet the requirement of the regulations that the organization be operated primarily for the common good and general welfare of the people of the community. Accordingly, this organization is not exempt from federal income tax as a social welfare organization under Section 501(c)(4).

In Commissioner v. Lake Forest Inc., 305 F.2d 814 (4th Cir. 1962), a corporation was organized by World War II veterans for the purpose of purchasing a government housing project and converting it to cooperative, nonprofit housing for its members. Individuals became members in the corporation by purchasing an apartment unit and, as such, the number of members was limited to the number of units available. The court held that the organization was not described in IRC Section 501(c)(4) because it was “a public-spirited but privately-devoted endeavor” that provided only incidental benefit to the community. The organization did not promote social welfare because it furnished housing only to a certain group of individuals, rather than on a community basis, and did not offer a service or program for the direct betterment or improvement of the community as a whole.

In New York State Association of Real Estate Boards Group Insurance Fund v. Commissioner, 54 T.C. 1325 (1970), an association organized by a small group interested in obtaining group insurance did not qualify for exemption because it offered its benefits to only a limited class of its members and their employees. The court noted, “there is not in such an organization the requisite civic concern to constitute social welfare” required for qualification under IRC Section 501(c)(4). Where the primary benefit from an organization is limited to that organization's members, and not provided to the community as a whole, the organization is not operated primarily for social welfare.

Application of law

An organization recognized under IRC Section 501(c)(4) is one that is operated primarily to bring about civic betterments and social improvements to the community. You operate a membership organization that provides networking, training, and business referral services for your members. You are not as described in Section 501(c)(4) and Treas. Reg. Section 1.501(c)(4)-1(a)(1) because your activities do not primarily promote civic betterment or social welfare; you are primarily operating for the convenience and benefit of your members.

According to Treas. Reg. Section 1.501(c)(4)-1(a)(2)(i), an organization is operated for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. You are operating as a networking and referral service for your members to help increase their individual businesses. This provides a private benefit to your members and the benefits to community are incidental.

The concept of social welfare implies a service or program directed at benefiting the community as a whole, rather than a private group of individuals, as explained in Rev. Rul. 73-306 and Commissioner v. Lake Forest Inc. You are like the organization described in Rev. Rul. 73-349 because you provide benefits to your membership through your networking activities. Any benefits to the community are not sufficient to meet the requirement of the regulations that the organization be operated primarily for the common good and general welfare of the people of the community.

You are like the organization discussed in Rev. Rul. 75-199 because, other than some incidental benefit to the community, the benefits you offer are limited to your members. Therefore, you are not operated for the promotion of social welfare within the meaning of IRC Section 501(c)(4).

You are like the organizations described in Rev. Rul. 78-132 and New York State Association of Real Estate Boards Group Insurance Fund because, while you do provide some benefits to the public, you primarily serve the private economic interests of your members. Therefore, you are not operated primarily for social welfare purposes within the meaning of IRC Section 501(c)(4).

Conclusion

Based on the information provided, we conclude that you are not described in IRC Section 501(c)(4). You were not formed for an overall community benefit or for social welfare purposes. You were formed to provide a networking and referral group for your members' economic benefit. Accordingly, you do not qualify for recognition of exemption under Section 501(c)(4).

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.

If you don't agree

You have a right to protest if you don't agree with our proposed adverse determination. To do so, send us a protest within 30 days of the date of this letter. You must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

For an officer, director, trustee, or other official who is authorized to sign for the organization:

Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, 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 they haven'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 gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information 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 later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

Where to send your protest

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Mail Stop 6403
P.O. Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Mail Stop 6403
Cincinnati, OH 45202

You can also fax your protest 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 they received it.

You can get the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676). If you have questions, you can contact the person listed at the top of this letter.

Contacting the Taxpayer Advocate Service

The Taxpayer Advocate Service (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 if 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 877-777-4778.

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