



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

Number: **202009027**
Release Date: 2/28/2020

Date:
December 3, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

UIL: 501.06-00, 501.06-01

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.

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 8, 2019
 Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B = Date
 C = State
 D = City
 e dollars = Amount
 f dollars = Amount

UIL:

501.06-00
 501.06-01

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)(6). 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)(6)? No, for the reasons stated below.

Facts

You were incorporated on B in the state of C. Per your Articles of Incorporation, you were formed to facilitate the voluntary exchange of business and business information between and among members; to generally assist one another by furnishing said business and assist the businesses of the members and to do any lawful act that may be necessary, convenient, or incidental to effect and promote said purpose, or any other lawful activity.

Your Articles of Incorporation also state that your membership consists of individuals representing a firm, partnership, corporation, or other business entity in the Greater D area that has ownership or management responsibility of their respective organizations.

Applicants for membership must be recommended by a current member and then they must complete a membership application. Your application and Bylaws further state "Each membership category shall be exclusive to one member." Membership applications are first considered by the membership chair who then recommends applicants to the Board of Directors for consideration. Upon approval of the application by the Board of Directors, the application is submitted to the current members who vote by secret ballot to determine if the applicant will be added as a member. A three-fourths majority vote is required of members present at any regular meeting for a new member to be added.

Your application and Bylaws further state that if a new member's application has been submitted and a conflict has been discovered from an existing member for services provided, not by category, the current member that has the conflict will need to present at a board meeting their concerns. The board will then discuss the conflicts and have the final say if the new member can be presented to the full membership for a vote and will follow the proper procedures per your Bylaws. For applications where a conflict exists regarding an applicant providing services similar to an existing member, unanimous approval is required of members present at any regular meeting.

Members shall not promote business or exchanges when not within their assigned membership category. Membership is personal to each member as a representative of a specific eligible entity and membership category. Membership may be terminated if a member's management responsibility within the entity is altered, the member no longer represents the entity, or the member no longer represents the membership category.

You describe your activities as weekly breakfast meetings that begin with time for members to socialize, followed by breakfast, and then a discussion of member updates, introductions, and time for members to discuss their craft. Each week, one member describes their business and personal/professional interests. While discussing their craft, they describe their business history as well as examples of products and services that they provide. Prior to the next meeting, each member is encouraged to visit the place of business of the most recent speaker and sign a registration book to be entered to win a prize to be provided and awarded by the speaker at the next meeting.

You also hold annual golf and baseball outings for your members, a holiday party, and occasionally additional social events. You further state that you encourage your members to promote and support higher business standards, business methods, and community involvement within their respective lines of business and among their employees.

Our records show that you have filed Form 1120, U.S. Corporation Income Tax Return, for each tax year you have existed to date. You are primarily funded by membership dues of e dollars per quarter for each member as well as initiation fees for new members of f dollars. You also charge a fee for various member events during the year. Your largest expenditure is for your meetings, followed by your holiday party, website, and outings. You also have other miscellaneous administrative expenses.

Law

IRC Section 501(c)(6) exempts from federal income tax business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues (whether or not administering a pension fund for football players), 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 that an organization whose membership consists of individuals, firms, associations, and corporations, each of whom represents a different trade, business occupation, or profession, and created for the purpose of exchanging information on business prospects does not qualify for exemption under IRC Section 501(c)(6). Part of the rationale for the ruling is that the members have no common business interest other than a mutual desire to increase their individual sales.

Rev. Rul. 73-411, 1973-2 C.B. 180, describes 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. The activities of the organization are directed to promoting the general business interests of its members.

In Indiana Retail Hardware Assn., Inc. v. United States, 177 Ct. Cl. 288 (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 IRC Section 501(c)(6). 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 formed to provide networking and referral opportunities for your members who are from different lines of business. Contrary to Treas. Reg. Section 1.501(c)(6)-1, you are not an association of persons with common business interests. Your membership is composed of one representative from each industry or professional classification and has no common business interest. Therefore, you are not a business league as described in IRC Section 501(c)(6).

Like the organization in Rev. Rul. 56-65, you do not benefit the common business interests of all businesses involved within an industry or geographic area. You facilitate networking and exchange of information between members, who each must be from a separate membership category. This activity constitutes performance of a particular service to your members with the intent of growing the members' businesses. Accordingly, you are not exempt under IRC Section 501(c)(6).

You are similar to the organization described in Rev. Rul. 59-391 because your Bylaws limit membership to a single individual to represent each category (trade/line of business) of membership. You further allow for existing members to prevent applicants from joining who provide similar services as an existing member, even if the prospective applicant is in a different trade/line of business than the existing member. Your members have no common business interest other than a mutual desire to increase their individual sales. Likewise, your weekly breakfast meetings are not directed toward the improvement of one or more lines of business, but rather to the promotion of the private interests of your members.

As described in Rev. Rul. 73-411, membership and enjoyment of privileges in an organization exempt under IRC Section 501(c)(6) are not to be restricted or limited to a select number of entities within the described industry. Membership in a trade association or business league should be both voluntary and open generally to all entities within a particular line of business or closely related lines of business. When you restrict privileges

to your members, you are lacking an essential element of public representation and membership support within the intent of Section 501(c)(6).

Like the organization described in Indiana Retail Hardware Assn., Inc., your activities do not improve the business conditions of one or more lines of business or business conditions of any community as a whole. Instead, you serve the private business interests of your individual members. Therefore, you are precluded from exemption under IRC Section 501(c)(6).

Conclusion

Based on the information provided, we conclude that you do not qualify for exemption under IRC Section 501(c)(6). Your activities are not directed to the improvement of business conditions of one or more lines of business, nor do you share any common business interest. Rather, your activities are directed at the improvement of your members' businesses. Accordingly, you do not qualify for exemption as an organization described in Section 501(c)(6).

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.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements