



**Department of the Treasury
Internal Revenue Service**

P.O. Box 2508
Cincinnati, OH 45201

Number: 202017028
Release Date: 4/24/2020

UIL Number: 501.06-00, 501.06-01

Date: January 30, 2020

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 Internal Revenue Code (IRC) Section 501(c)(6). 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 IRC Section 6110) 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:
December 4, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

M = State
B = Date
N = Name
P = Geographic area
Q = Geographic area

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 incorporated in M on B. Your Articles of Incorporation provide that you promote the interests of franchise owners of N in the P and Q areas. Your bylaws state that you foster the common business interests of N franchise owners by working to:

- foster knowledge and understanding through the sharing of timely, accurate, and relevant information;
- unite franchise owners of N and provide a form for open, honest, and productive communication; and
- promote profitability and improve business conditions for franchise owners of N.

Voting members of your organization are limited to franchise owners of N in the P and Q areas. Any entity that supplies goods or services to franchise owners of N may join as a non-voting member.

You hold monthly meetings to introduce new policies from N, discuss issues with vendor representatives, and introduce new N franchise owners to existing N franchise owners. You also conduct annual forums for N franchise owners aimed at reviewing problems and issues encountered during the year and promoting profitability.

In addition, you organize an annual golf tournament that benefits charities in the P area. You noted that the event also fosters goodwill between franchise owners and vendor partners.

You are supported by membership dues, fundraising proceeds, sponsorships, and donations. You donate revenues in excess of expenses to several charities in your area.

Law

IRC Section 501(c)(6) provides for the exemption from federal income tax of 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 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. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.

Revenue Ruling 58-294, 1958-1 C.B. 244, holds that an association of licensed dealers in a certain type of patented product did not qualify as a business league under IRC Section 501(c)(6). The association in this ruling owned the controlling interest in the corporation that held the basic patent of the product, it engaged mainly in furthering the business interests of its member dealers, and it did not benefit businesses that manufactured competing product of the same type covered by the patent.

Revenue Ruling 66-338, 1966-2 C.B. 226, describes an organization that was formed to promote the interests of a particular retail trade and is not exempt from federal income tax under IRC Section 501(c)(6) because it advises its members in the operation of their individual businesses.

Revenue Ruling 67-295, 1967-2 C.B. 197, states that an organization, composed of businessmen, may qualify for exemption where its activities are limited to holding luncheon meetings devoted to a discussion, review, and consideration of the various problems in a particular industry directed to the improvement of business conditions for the industry as a whole.

Revenue Ruling 68-182, 1968-1 C.B. 263, states that the Internal Revenue Service (Service) will not in similar cases follow the decision entered by the United States Court of Appeals, Seventh District, in Pepsi-Cola Bottlers' Association, Inc. v United States, 369 F.2d 250 (1966). In that case the court held that the Association, whose members are engaged in the bottling and sale of a single franchised soft-drink product, and whose purposes and activities were directed to the more efficient production and sale of that product, qualified for exemption under IRC Section 501(c)(6). It is the position of the Service that organizations promoting a single brand or product within a line of business do not qualify for exemption under IRC Section 501(c)(6).

In National Muffler Dealers Association, Inc. v. United States, 440 U.S. 472 (1979), the court held that an organization of muffler dealers franchised by Midas International Corporation did not qualify for exemption under IRC Section 501(c)(6).

Application of law

You are not a business league as described in IRC Section 501(c)(6) and Treas. Reg. Section 1.501(c)(6)-1 because your activities are not directed to the improvement of business conditions of one or more lines of business and you are formed to provide particular services to your members.

You are like the organization described in Rev. Rul. 58-294 in that your activities only benefit and promote the interests of franchise owners of N rather than an industry as a whole.

You are similar to the organization in Rev. Rul. 66-338 in that you advise your members in the operation of their individual businesses and help them network with vendors. This is a service for the convenience of members and does not promote or improve a line of businesses in general.

Unlike the organization described in Rev. Rul. 67-295, your activities do not address the various problems in a particular industry and are not directed to the improvement of business conditions for that industry as a whole. Rather, your activities address issues and business conditions of one particular store.

The Service's position outlined in Rev. Rul. 68-182 applies to you. The promotion of a single business franchise within a line of business does not qualify for exemption under IRC Section 501(c)(6). Like the organization described in National Muffler Dealers Association, your activities are directed toward a single franchise.

Conclusion

Based on the information provided, you fail to qualify for exemption under IRC Section 501(c)(6) because you provide services to your members that further their private interests and are not directed toward the improvement of business conditions of one or more lines of business. Accordingly, you do not qualify for exemption under IRC 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