



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
PO Box 2508
Cincinnati, OH 45201

Date: October 27, 2020

Employer ID number:

Form you must file:

Tax years:

Person to contact:

Name:

ID number:

Telephone:

Number: **202103016**
Release Date: 1/22/2021

UIL: 501.06-01, 501.06-02

Dear _____ :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in 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 the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit www.irs.gov.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. 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 call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Notice 437
Redacted Letter 4034
Redacted Letter 4038



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

Date: August 25, 2020

Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

- B = State
- C = Date
- D = Name
- E = Name

UIL:

- 501.06-01
- 501.06-02

x dollars = Amount

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 in the state of B on C by a group of local _____ and _____ in order to:

1. Promote the work of local _____ and _____ people.
2. Help develop a tourist market as well as develop a local market for your members.
3. Promote E county.
4. Help promote the local community by organizing and/or supporting community activities.

You are operating as a cooperative to market your members handcrafted items. Specifically, you provide a facility for your members to sell their products under the name D that operates as a retail gallery, is opened daily for several months during the year, and is typically closed during the winter months. Concerning items sold, you retain _____ % of the proceeds, while the member retains the remainder. Further, you provide book keeping services for your members and advertising as well as promote your activities through local events which you stated ultimately benefits your members.

Your members consist of _____ and _____ who wish to sell their products at D. To become a member, your Executive Board will jury the work of new members and make recommendations to the general membership who will vote on whether to accept them. Membership dues are x dollars. The initial joining fee will also be x dollars and will count for the first year's dues.

All accepted members are required to participate in the operation of D. Specifically, members:

- Must sign up for a designated number of shifts at the beginning of the new season and are responsible for working their shifts or finding a replacement;
- Are expected to serve on committees, to help with cleaning, to set up store displays and to help with other projects as designated by your membership;
- Are responsible for labeling their own merchandise, for keeping track of their inventory and for maintaining quality merchandise.

If members do not comply with working their shifts, your Executive Board will notify them in writing that they have one week to complete their projected schedule or schedule a meeting to discuss a hardship arrangement. Those who do not comply with these requirements, will be notified in writing that they are terminated from participating for that season and they will be notified to immediately remove their merchandise.

You are governed by an Executive Committee, consisting of your President, the Vice President, Two Co-Treasurers, and the Secretary. The Co-Treasurers are responsible for keeping cooperative books including gallery financial records; paying bills; teaching members how to handle store operations, recording and making deposits; determining money splits for members; and, writing checks to members the first week of the month for the previous month's sales.

Additionally, you are supported by commissions from members products sold through D, donations, and membership fees. Expenses are for facility maintenance, advertising, insurance, equipment, and supplies.

Besides operating the gallery, you help with the _____ community celebration which helps bring tourists to your community and into D where your members products are available for sale. You also hold an annual Christmas party for children open to all in the community.

Finally, your bylaws indicate that you have the option to decline work submitted by members, or to refuse work from potential members for the following reasons:

- The items are of poor quality and construction;
- The items are identical to the work of other members;
- The items are clearly produced from mass marketing kits

Law

IRC Section 501(c)(6) provides exemption from federal income tax for business leagues not organized for profit, and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Treasury Regulations Section 1.501(c)(6)-1 states 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 65-14, 1965-1 C.B. 236 describes an organization formed to promote the tourist industry in its area and whose principal activity is publishing a yearbook consisting largely of paid advertisements for its members. The organization was not entitled to exemption under Section 501(c)(6) of the Code because its principal activity was considered the performance of particular services to individual members of the organization, rather than an activity aimed at the improvement of general business conditions.

Revenue Ruling 66-338, 1966-2 C.B. 226 describes an organization formed to promote the interests of a particular retail trade which advises its members in the operation of their individual businesses and sells supplies and equipment to them. The organization is not exempt under IRC Section 501(c)(6) because its activities constitute the performance of particular services for individual persons as distinguished from activities aimed at the improvement of business conditions in their trade as a whole.

Application of law

To be exempt under IRC Section 501(c)(6), your activities must be directed to the improvement of business conditions of one or more lines of business, and not inure to the benefit of any private shareholder or individual. You primarily operate a cooperative art gallery, D, where members receive 80% of the proceeds of the items they sell. As a condition of membership, members must also work a specific number of shifts in the gallery or lose the right to display and sell merchandise. They are also required to serve on committees. By operating in this manner, you are engaged in a regular business of a kind ordinarily operated on a for profit basis which is in contravention to Treas. Reg. Section 1.501(c)(6). You are also rendering particular services including advertising and book keeping services for individual persons rather than promoting the general business conditions of a particular line of business.

Similar to the organization described in Revenue Ruling 65-14, you are primarily engaged in the performance of particular services to your individual members. For example, you provide retail gallery space for your members to sell their products, keep books and records and write them commission checks, as well provide advertising of their products. This precludes exemption under IRC Section 501(c)(6).

You are similar to the organization described in Revenue Ruling 66-338. You are providing members suitable gallery space, book keeping services and advertising. These services provide your members with an economy and convenience in the conduct of their individual businesses. Furthermore, these facts show you are providing particular services for your individual members as distinguished from activities aimed at the improvement of business conditions in their trade as a whole.

Conclusion

Based on the information provided, we conclude that you are not operated as a business league described in IRC Section 501(c)(6). Your operations are substantially similar to those of a for profit business and you provide particular services to members as well provide a convenience to members. Therefore, 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