



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

Date:
09/07/2022
Employer ID number:

Form you must file:

Tax years:

Person to contact:

Number: **202248013**
Release Date: 12/2/2022

UIL: 501.06-00

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 Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 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:
Letter 437
Redacted Letter 4034
Redacted Letter 4038



Department of the Treasury
Internal Revenue Service
PO Box 2508
Cincinnati, OH 45201

Date:
July 11, 2022
Employer ID number:

Person to contact:
Name:
ID number:
Telephone:
Fax:

Legend:

B = date
C = state
D = company
E = city

UIL:
501.06-00

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)(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 formed on B as an _____ with the Secretary of State of C. Your Articles of Organization state you are a marketing co-op with the objective to share marketing funds for larger advertising buys. Franchisees of D, from the E area, elected to form an organization in order to purchase better advertising and marketing for the E area franchise outlets. Your Bylaws stipulate rules each franchisee must follow including contributions of net sales to an advertising fund.

By forming this organization, D franchisees can join together to determine best strategies for joint advertising. Income is provided by the D corporate office from advertising percentages that each franchisee pays. The money provided from the advertising royalties are paid to the D franchisees. You conduct calls between the D franchisees weekly to discuss options in advertising and marketing. Such discussions are as to what advertising or marketing to purchase by the collected group of D franchisees. Once joint decisions are made on what advertising and marketing is best, you purchase the advertising and marketing agreed upon for the D franchisees in the E area. The franchisee must use the advertising fund as specified in the franchisee agreement.

You indicated that you have or plan to purchase advertising in the form of _____ Sponsorship, Sponsorship, landing page/website development and maintenance services, Direct Mailers for coupons, Valpak

Monthly mailers for coupons, social media advertising/Instagram/Facebook, and sponsorship for your members.

Radio

All your members are required to be part of D in good standing and with a store operating and open to the public.

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 Regulation Section 1.501(c)(6)-1 states that a business league is an association of persons having some common business interests, 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. The Regulations further state that the activities of a business league 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 members.

Revenue Ruling 55-444, 1955-2 C.B. 258, provides that an organization formed to promote the business of a particular industry that carries out its purposes primarily by conducting a general advertising campaign to encourage the use of products and services of the industry as a whole is exempt from tax notwithstanding that such advertising to a minor extent constitutes the performance of particular services for its members.

Revenue Ruling 67-77, 1967-1 C.B. 138, provides that an association of dealers selling a particular make of automobile that engaged in financing general advertising campaigns to promote the sale of that particular make was not exempt because it was performing particular services for its members rather than promoting a line of business, i.e., the automotive industry as a whole. In this ruling, membership in the organization was restricted to dealers who held franchises for the sale of the automobiles designated in the area.

Revenue Ruling 68-182, 1968-1 C.B. 263, provides that organizations promoting a single brand or product within a line of business do not qualify for exemption under section 501(c)(6) of the Code.

Revenue Ruling 76-409, 1976-2 C.B. 154, provides a nonprofit organization of individuals in the business of furnishing finance adjusting services, which assigns exclusive franchise areas to its members and publishes and distributes to their potential customers a directory containing members' names and addresses, is performing particular services for its members and does not qualify for exemption under section 501(c)(6) of the Code. The publication and distribution of a directory containing the names and addresses of members constitutes advertising for the individuals so listed, and is, therefore, the performance of particular services for such individuals rather than an activity aimed at the improvement of general business conditions.

National Muffler Dealers Association, Inc. v. United States, 440 U.S. 472 (1979), concludes that an organization of muffler dealers franchised by Midas International Corporation did not qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Code. The organization's purpose was too narrow to satisfy the line of business test of section 1.501(c)(6)-1 of the regulations.

Application of law

You are not described in Treas. Reg. Section 1.501(c)(6)-1 because your activities are directed at performing services for the benefit of a particular franchise business rather than to the improvement of business conditions

of one or more lines of business. For this reason, you are not described in IRC Section 501(c)(6) of the Code, because you are not organized and operated as a business league.

You are not similar to the organization described in Revenue Ruling 55-444 because your advertising campaign is specific to the one patented product and service sold by your members rather than to encourage the use of products and services of the industry as a whole. Instead of a general advertising campaign you are specifically targeting only your members and their franchise businesses.

You are similar to the organizations described in Revenue Rulings 67-77 and 68-182 because your activities further the business interests of your member franchisees of a single brand or product. You perform particular services for your members to increase individual sales and revenues rather than benefit the industry as a whole. You were established for member franchisees to be more successful through joint activities and leveraging in D brand awareness, promotions, marketing and sales. Because you are only improving business conditions for your franchisees, and for the above reasons, you are precluded from exemption under IRC Section 501(c)(6).

Similar to the organization in Revenue Ruling 76-409, by restricting membership to only those franchisees of D, and by offering advertising and marketing strategies, you are performing particular services to members. Further, by limiting membership you are not aimed at the general improvement of conditions for all those in the industry related to D. As a result, you do not qualify for exemption under IRC Section 501(c)(6).

You are similar to the organization described in National Muffler Dealers Association, because your activities serve members who are D franchise owners. Specifically, you were formed to purchase better advertising and marketing for these members. By doing so you provide particular services toward particular franchisees which does not represent one or more line of businesses. Therefore, you are precluded from exemption under IRC Section 501(c)(6).

Conclusion

You do not meet the requirements of IRC Section 501(c)(6) because your benefits are directed toward a segment of a line of business versus the industry as a whole. Your activities are not directed to the improvement of business conditions of one or more lines of business, rather, they are providing particular services for your individual members. Accordingly, we conclude that you are not exempt under 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 Determination 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
PO 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