



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Number: **200536026**

Release Date: 9/9/05

UIL: 0501.06-00

Date: 11/05/04

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

Legend:

M =

N =

Dear _____ :

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(6). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

The information submitted shows that you were incorporated on April 5, 2001, under the laws of M. Your Articles of Incorporation state that you are organized exclusively for public safety research public benefits and training purposes with the meaning of section 501(c)(3) of the Code. The general nature of the purposes, powers, and, activities of the corporation shall include, but not be limited to, the following:

- (a) To further the education, training, research, developmental, and public service objectives of the State of M.
- (b) To conduct interdisciplinary research and development activities for government agencies, public and private foundation, and/or other entities or persons both corporate and individual.
- (c) To disseminate and exchange public safety scientific knowledge and information through technical reports, journal publications, symposia, workshops, short courses, and scientific meetings.

(d) To solicit, receive, and utilize funding from federal, state, and local government sources, as well as from private sources in support of public education, research, and development objectives.

N originally filed its application for exempt status under section 501(c)(3) of the Code on August 15, 2002. On January 20, 2003, N formally filed Form 1024 for recognition of exemption under section 501(c)(6) of the Code instead of section 501(c)(3). There is no indication that N has amended its above Articles of Incorporation or its bylaws as filed with its section 501(c)(3) application. N's bylaws state that N has four founding members: a venture capital group, a bank, the University of M, and the M Business Council (an executive branch state agency). The bylaws also provide that N's "Board of directors with the majority consent of the Members of (N) may admit additional Members of (N) on such terms, and subject to such requirements as may be established from time to time by the Board of Directors. The founding Members of (N) may not be removed involuntarily." Form 1023 states that N has no members. Form 1024 states "N/A" on the question regarding qualifications for membership. On Form 1024, as amended by letter dated May 5, 2003, N states:

"The most important function of (N) is the promotion of entrepreneurship within the State of M and the region as a public service to improve business conditions for entrepreneurs within the State."

"More than 90 per cent of (N)'s activity centers on organizing four meetings per year that are held at various locations around M and that are open to any member of the public who shares the common business interest in entrepreneurship and pays the registration fee...Typically, the meetings involve four activities..."

Your members may network, may provide investments and/or may obtain funding for their businesses at these meetings. Your advertisement of these meetings state :
 "whether you are looking to make connections, to make an investment or to get your business funded, N is here to help you." You have described a typical evening meeting as follows:

5:30 pm Cocktails and networking	Arrive early to network with the startup business leaders in the state.
6:30 pm Dinner and networking	While enjoying dinner, exchange business cards and backgrounds with other people at your table.

7:00 pm 5-minute presentations by entrepreneurs seeking capital	Listen to up to four companies that have survived rigorous screening of their business plans and oral presentations.
7:30 pm Main program	Learn from seasoned entrepreneurs, venture capitalists, and other experts on one facet of how to start, finance, grow, and exit a company.

You have described your membership fees from your Website as follows:

Membership dues: \$50 annual fee
Meeting fee structure \$30 for members and students/ \$40 for nonmembers
Workshop fees \$15 for members/ \$20 for nonmembers

A Membership Form on your Website states:

Members of (N) share the benefits of:

Increased awareness of (M)'s business resources
Networking opportunities
Cost-breaks on events and workshops
Newsletter
Membership Directory
Member-only events

The membership form asks only for name, company, address, city, State, ZIP, phone, FAX, e-mail, and Website, and asks for a description of the person or the company applying as either Entrepreneur, Service Professional, Government Agency, or educational institution.

In a letter dated November 4, 2003, N states that its all volunteer organization is attempting to increase entrepreneurship, and economic activity, in M by organizing regular meetings at which investors, entrepreneurs, economic development professionals, and private service providers can learn the intricacies of how to start and grow successful businesses.

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

Section 1.501(c)(6)-1 of the Income Tax Regulations 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 a 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.

Rev. Rul. 56-65, 1956-1 C.B. 199, holds that a local organization whose principal activity consists of furnishing particular information and specialized individual services to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses is performing particular services for individual persons. Such organization, therefore, is not entitled to exemption under section 501(c)(6) of the Code as a business league even though it performs functions which are of benefit to the particular industry and the public generally. 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 of specific projects, are 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 section 501(c)(6) of the Code. 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. 67-295, 1967-2 C.B. 197, holds that an organization of businessmen holding luncheon meetings may qualify for exemption under section 501(c)(6) of the Code. The key to the determination is that the luncheon meetings are devoted to discussions, reviews, and considerations of the various problems in a particular industry.

Rev. Rul. 67-296, 1967-2 C.B. 211, holds that an organization that qualifies for exemption under section 501(c)(6) of the Code may conduct classes to improve the educational standards of the profession. This activity improves the business condition in one or more lines of business as a whole.

Rev. Rul. 68-264, 1968-1 C.B. 264, defines a particular service for the purposes of section 501(c)(6) of the Code as an activity that serves as a convenience or economy to the members of the organization in the operation of their own businesses. The revenue ruling also states that activities that constitute the performance of particular services for individual persons may preclude exemption under section 501(c)(6).

Rev. Rul. 70-641, 1970-2 C.B. 119, involves an organization comprised of individuals from various professions in the field of public health. The organization's activities, which consist of lectures, seminars, and discussions, seeks to provide an interdisciplinary forum for exchanging knowledge and information. The revenue ruling concludes that the organization's activities promote the members' common business interests by increasing the effectiveness of the interaction among the various professions and solving common business problems. The fact that the members represent various professions does not prevent the organization from qualifying for exemption under section 501(c)(6) of the Code because they share a common business interest in the field of public health.

Rev. Rul. 73-411, 1973-2 C.B. 180, in discussing the exempt status of a shopping center merchants' association under section 501(c)(6) of the Code, describes in detail the history of section 501(c)(6) and the types of organizations described therein. In the case of a chamber of commerce or similar organization, the common business interest required by section 1.501(c)(6)-1 of the regulations is usually the general economic welfare of a community, and it has been accepted that an organization seeking exemption under section 501(c)(6) as a chamber of commerce must be one whose efforts are directed at promoting the common economic interests of all the commercial enterprises in a given trade community. Trade associations or business leagues under section 501(c)(6) are similar to chambers of commerce, except that they serve only the common business interests of the members of a single line of business or of the members of closely related lines of business within a single industry. The revenue ruling also stresses that membership in section 501(c)(6) organizations is voluntary and open generally to all businesses and professional persons in the community.

Rev. Rul. 76-207, 1976-1 C.B. 158, describes an organization that is trying to attract national conventions to a particular city. The revenue ruling concludes that the organization is accomplishing its purpose in a manner that is similar to the development of an industrial park. Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(6) of the Code.

In American Kennel Club v. Hoey, 148 F.2d 920 (2nd Cir. 1945), the court held that an association of dog owners, most of whom were not in the business of raising and selling dogs, did not further a common business interest and thus was not exempt under section 501(c)(6) of the Code.

The term “business” is construed broadly for purposes of section 501(c)(6) of the Code and includes almost any enterprise or activity conducted for remuneration. Thus, the term is broad enough to encompass professionals, as explained in Rev. Rul. 70-641, supra, as well as mercantile and trading businesses. It may also include the activities of organizations, such as consumer cooperatives, which engage in business on a cooperative basis. Where there is no “business” involved, however, as explained in American Kennel Club v. Hoey, supra, exemption under section 501(c)(6) is precluded.

The information you have submitted fails to establish that the individuals whom you identify as your members are in a common line of business for purposes of section 501(c)(6) of the Code, which requires more than a finding that the individuals are engaged in a business. Unlike the organizations describe in Rev. Ruls. 67-295 and 70-641, both supra, your membership does not represent a specific industry nor various professions within a common business field. Your membership is not comprised of either an entire industry or all components of an industry within any particular trade community, but rather is composed primarily of investors, business owners and individuals who wish to own a business.

Your operation is similar to that of the organization described in Rev. Rul. 59-391, supra, in that the purpose of your members attending your meetings is to increase their individual business opportunities. We recognized that there are distinctions between your operations and those of the organization described in Rev. Rul. 59-391, in that your membership is not necessarily restricted to different trade, business occupations, or professions. However, the basic holding in that revenue ruling is that the participants have no common business interest other than a mutual desire to increase sales and that this is not sufficient to establish a common line of business for the purposes of section 501(c)(6) of the Code. Your membership similarly is not made up of persons with a common business interest with the meaning of section 501(c)(6), but rather consists of persons desiring to increase their own personal wealth. Accordingly, we conclude that the holding in Rev. Rul. 59-391 applies to you and thus you do not qualify for exemption under section 501(c)(6).

In addition, although you indicate that your programs are open to all interested parties, you lack the essential characteristic of a chamber of commerce in that your efforts are directed at individuals owning their own businesses, investors, and individuals that are interested in starting their own business rather than directing your efforts in promoting the common economic interests of all the commercial enterprises in your community (see the general discussion in Rev. Rul. 73-411, supra, regarding the history of organizations described in section 501(c)(6) of the Code). Your activities are more analogous to the organization described in Rev. Rul. 56-65, supra, where particular

information and specialized individual services to individual members precluded exemption under section 501(c)(6).

You have cited Rev. Rul. 67-296, supra, and Rev. Rul. 76-207, supra, in support of your arguments that you qualify for exempt status under section 501(c)(6) of the Code. Rev. Rul. 67-296 refers to an organization raising educational standards within its profession. You are distinguishable from this revenue ruling in that you are primarily providing a forum for businesses and individuals who wish to start a business to obtain funding. Rev. Rul. 76-207 concerns an organization that is attracting business to a particular area. You are distinguishable from this revenue ruling in that you are providing individual benefits to established businesses and to individuals who wish to start a business.

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(6) of the Code and you must file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views to this office, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and a copy will be forwarded to the Ohio Tax Exempt and Government Entities (TE/GE) office. Thereafter, any questions about your federal income tax status should be directed to that office, either by calling 877-829-5500 (a toll free number) or sending correspondence to: Internal Revenue Service, TE/GE Customer Service, P.O. Box 2508, Cincinnati, OH 45201.

In the event this ruling becomes final, it will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

If you decide to protest this ruling, your protest statement should be sent to the address shown below. If it is convenient, you may fax your reply using the fax number shown in

the heading of this letter. If you fax your reply, please contact the person identified in the heading of this letter by telephone to confirm that your fax was received.

Internal Revenue Service SE:T:EO:RA:T:
1111 Constitution Ave, N.W. PE-
Washington, D.C. 20224

If you do not intend to protest this ruling, and if you agree with our proposed deletions as shown in the letter attached to Notice 437, you do not need to take any further action.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Lois G. Lerner
Director, Exempt Organizations
Rulings & Agreements

Enclosure
Notice 437