



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

Release Number: **201107028**
Release Date: 2/18/11
Date: November 23, 2010
UIL Code: 501.06-00
501.06-01

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

1120

Tax Years:

All

Dear

This is our final determination that you do not qualify for exemption from Federal income tax as an organization described in Internal Revenue Code section 501(c)(6). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

We will make this letter and our proposed adverse determination letter available for public inspection under Code 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, you should follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at

Letter 4040(CG) (11-2005)
Catalog Number 47635Z

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Rob Choi
Director, Exempt Organizations
Rulings & Agreements



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

Date: October 5, 2010

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

LEGEND:

M =

N =

y =

z =

UIL:

501.06-00

501.06-01

Dear

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

Issues

Do you, M qualify for exemption under section 501(c)(6) of the Internal Revenue Code? No, for the reasons described below.

Facts

You were incorporated under the laws of the state of y, on z. Your Articles of Incorporation state that you are organized for the following purpose:

To bring together seasoned professionals in the business services and operations fields and develop alliances with chief executive officers, presidents, boards and senior executives in the corporate and business sector in an effort to make collaborative value-based resources available to them; to cultivate relationships among business professionals in the business services and operations fields; and to develop a referral base of qualified and reputable business professionals to meet on-

Letter 4034 (CG) (11-2005)
Catalog Number 47628K

going needs of business entities and their owners.

You submitted a copy of an amendment to your Articles of Incorporation that changes your purpose to the following: "to promote, educate, and support professionals in the fields of business services and business operations." However, you did not provide proof that the amendment was actually filed with the state.

Your original application stated that your activities and programs are designed to provide value based resources to established businesses in the N region. You further stated that this is accomplished primarily by cross-marketing the services provided by those professionals who have joined the organization. These activities will be conducted at networking meetings held twice per month. The networking meetings are "open to professional advisors who have joined the organization and others from the business services and operations field that are interested in learning more about the organization." You also stated that "those who have joined the organization have an opportunity to exchange leads with one another in regards to businesses that have needs in a particular business services and/or operations field area." You went on to say that "members of the organization were each given the opportunity to discuss their respective client base/prospective clients, client business needs, and for clients that requested immediate business assistance, arrange the contact with the appropriate member professional." These activities currently represent 100 percent of your efforts.

During case processing, you amended your original activity description to remove references to cross-marketing the services of members and exchanging business leads.

Your website asks the question, "Why choose M business advisors?" It goes on to answer the question by listing "experienced professionals, collaborative planning, cost-effective solutions and accountability." Under the heading "experienced professionals" the website states that "when you want a solution to a business need, you want to know you are getting the best advice from an expert." Under "collaborative planning" the website states "members work collaboratively to ensure your business needs and objectives are met." It further states that "our objective is to provide you with tangible benefits and value-added services." The mission statement on the website reads:

M was created to bring together seasoned professionals in the business services and operations fields and develop alliances with chief executive officers, presidents, boards and senior executives in the corporate and business sector in an effort to make collaborative value-based resources available to them; to cultivate relationships among business professionals in the business services and operations field; and to develop a referral base of qualified and reputable business professionals to meet on-going needs of business entities and their owners.

Your website also profiles each member and indicates the line of business they specialize in.

You currently have seven members who represent different trades or businesses. You indicated that there are no limitations on members based on profession or geographic region. However, currently there are no two members that represent the same profession. Membership into your organization is based on invitation only; "based upon a long relationship in business

with another network member.”

Your membership requirements and responsibilities include:

1. Meetings:
 - a. Attendance at the meetings is highly advisable
 - b. It is Mandatory that you are “active” while a member of M.
2. Referrals:
 - a. Two warm referrals every time we meet (Warm referral: that the client/prospect that you are referring is aware and in complete agreement to give the appropriate member the opportunity to provide a comparison, solution, advise and or willing to meet to discuss their solution further).
 - b. If the above is not achieved, then a face to face “joint” appointment needs to be set with a client/prospect for one of the M members.
 - c. If neither of the above expectations is met, then you will spend a half day out in the field introducing a M member to clients/prospects.
3. Sold Deals:
 - a. Out of the referrals that you provide, two of them need to be converted into sold deals by any M member(s) each quarter. For new members, the two “sold” deals per quarter expectation does not commence until the member has been involved in the organization the equivalent of one (1) full quarter.

Your membership requirements go on to discuss ramifications that include “If any of the above expectations are not met as specified above, then the Board of Directors will review the facts and circumstances, and make a decision to reprimand or replace the member in question.”

You are supported primarily by membership; the supplied financial information shows that in the current period as well as the projected two upcoming periods that revenue from membership fees will be in excess of 75 percent of the total revenues in each period. Your expenses are primarily for administrative and marketing activities with more than 65 percent of actual and projected future expenses being for these activities. The remaining portion of your expenses is devoted to “Workshops/Seminars.”

Law

Section 501(c)(6) of the Code provides exemption from Federal income tax for “Business leagues, chambers of commerce, real-estate boards, boards of trade, or professional football leagues (whether or not administering a pension fund for football players), 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 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 the 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."

In Rev. Rul. 59-391, 1959-2 C.B. 151, exemption under 501(c)(6) was denied to an organization composed of individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession. The organization was created for the purpose of exchanging information on business prospects and had no common business interest other than a desire to increase sales of members. The revenue ruling found that the organization's activities were not directed to the improvement of business conditions of one or more lines of business, but rather to the promotion of the private interests of its members.

In Rev. Rul. 70-641, 1970-2 C.B. 119, exemption under 501(c)(6) was granted to an organization open to persons engaged in various professions concerned with public health and welfare. These persons are united for the purpose of promoting a common business interest and improving their business conditions by exchanging knowledge and information in the field of public health and welfare and the improvement of professional services and techniques. The organization's activities consist of holding seminars, lectures, symposia, and discussions to provide an interdisciplinary forum for the exchange of ideas. It also disseminates information about legislative developments affecting the general areas of common concern. All of the organization's activities are financed out of membership dues. The organization's activities promote the business and professional interests of the members by increasing the effectiveness of the interaction among the various professions, by developing greater efficiency in the professions, and by solving problems common to the professions. Accordingly, it is held that the organization is exempt from Federal income tax under section 501(c)(6) of the Code. The fact that the membership is composed of individuals from a variety of professions does not prevent the organization from qualifying under section 501(c)(6), because the members all have a common business interest in the field of public health and welfare.

Revenue Ruling 76-409, 1976-2 C.B. 154 denied exemption to an organization whose principal activity is the publication and distribution of an annual directory consisting almost entirely on members' names, addresses, and telephone numbers. The directory is distributed free to those members of the business community who are likely to require the services of the profession. It was held, the publication and distribution of a directory containing the names and addresses of members constitutes advertising for individuals, and therefore, is the performance of particular services to members rather than an activity aimed at the improvement of general business conditions.

Application of Law

You are not described in IRC 501(c)(6) because you were formed to provide particular services to your members and therefore, operate similar to a for profit business.

You are not described in Section 1.501(c)(6)-1 of the Income Tax Regulation because the facts show you are not formed to promote the common business interests of a particular industry or

trade, but rather you limit your promotion to your members' specific businesses. You engage in a regular business of the kind ordinarily carried on for profit in that you provide specific services that would otherwise be necessary for each individual member to conduct on their own or through another entity. For example, you advertise your members' services extensively on your website and basically act as a cooperative in order to further each member's private business.

You are similar to the organization described in Rev. Rul. 59-391, 1959-2 C.B. 151 in that you are not directed to the improvement of business conditions of one or more lines of business, but rather to the promotion of the private interests of your members. Your members do not appear to have a common business interest other than a mutual desire to further the sales and client lists of the other members. Your membership consists of professionals that are each from a unique field. Like the members of the organization in Rev. Rul. 59-391, your members are not in competition with each other. You use your meeting time to share business contacts and to allow members the opportunity to learn about the other members' clients. Also like the organization in the revenue ruling you allow members to furnish other members with contact information and introduction to prospective clients to increase the sales and business of the members. In fact, it is actually a requirement that members bring business leads and hard sales to other members in order to retain membership in the organization.

Although you attempted to amend your Articles of Incorporation and your initial activity description, your overall activities, website, and membership requirements still show that your primary purpose is to further the private business interests of your individual members and not the improvement of business conditions of one or more lines of business. Like the organization in the revenue ruling you were created for the purpose of exchanging information on business prospects and have no common business interest other than a desire to increase sales of members.

You are not like the organization described in Rev. Rul. 70-641, 1970-2 C.B. 119. The organization in this ruling contained members who all had an interest in the field of public health and welfare. Their activities consisted primarily of holding seminars and lectures as a forum for exchanging knowledge and information regarding the field of public health. The organization in this ruling did not advertise the services of their individual members and it was not formed to exchange business leads and increase client lists. Unlike the organization in this ruling, your primary purpose is to share client leads, build the client base, and advertise the services of your individual members' businesses. You have no common business interest and are organized simply for the promotion of members' businesses.

You are like the organization described in Revenue Ruling 76-409. This organization was denied exemption under 501(c)(6) of the Code because the publication and distribution of a directory containing the names and addresses of members constitutes advertising for the individuals listed, and in turn, constitutes the performance of particular services for members. In essence, the organization acted as an employment agency for its members. Like this organization, your primary purpose is to promote the businesses of your members. This creates a convenience and economy to the individual members that they would otherwise have to conduct independently.

Applicant's Position

You stated that you are similar to the organization described in Rev. Rul. 70-641, 1970-2 C.B. 119 with a common business interest of business services and business operations. You stated that your purpose is to promote, educate and support professionals in the above mentioned common business interest. You stated that this was accomplished at twice monthly networking meetings in which the members exchange information about business trends, share ideas about more effective business services and operations, and build business connections. You indicated that 45% of your activities are dedicated to educating members about business trends. You also state that referral activity is a small portion of the organizations overall activities.

Service Response to Applicant's Position

You are not like the organization in Revenue Ruling 70-641 whose activities focused on promoting the common business interest of exchanging knowledge and information in the field of public health. As explained earlier, your activities are focused on increasing the business prospects of individual members. The facts clearly show that this is your primary purpose. The information contained on your website and in your application expressly shows that you are operating not to educate members, but instead to promote each member's individual business. Therefore, you have not established how your activities promote a common business interest within the meaning of 501(c)(6).

Conclusion

Your memberships requirements, along with the information provided from your website and application indicate you do not have a common business interest other than a mutual desire to further the sales and client lists of the your members. Accordingly, you do not qualify for exemption under IRC section 501(c)(6) as a business league.

Your Rights

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter.

We will consider your statement and decide if that information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*.

Types of information that should be included in your appeal can be found on page 2 of Publication 892, under the heading "Regional Office Appeal".

These items include:

1. The organization's name, address, and employer identification number;
2. A statement that the organization wants to appeal the determination;
3. The date and symbols on the determination letter;
4. A statement of facts supporting the organization's position in any contested factual issue;
5. A statement outlining the law or other authority the organization is relying on; and
6. A statement as to whether a hearing is desired.

The statement of facts (item 4) must be declared true under penalties of perjury. This may be done by adding to the appeal the following signed declaration:

"Under penalties of perjury, I declare that I have examined the statement of facts presented in this appeal and in any accompanying schedules and statements and, to the best of my knowledge and belief, they are true, correct, and complete."

Your appeal will be considered incomplete without this statement.

If an organization's representative submits the appeal, a substitute declaration must be included stating that the representative prepared the appeal and accompanying documents; and whether the representative knows personally that the statements of facts contained in the appeal and accompanying documents are true and correct.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you during the appeal process. To be represented during the appeal process, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice Before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications. If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter to you. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to the applicable address:

Mail to:

Deliver to:

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

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

Sincerely,

Robert S. Choi
Director, Exempt Organizations
Rulings & Agreements

Enclosure. Publication 892