



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

Number: **201721020**
Release Date: 5/26/2017

Date: March 3, 2017

Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

UIL: 501.06-00

Dear _____ :

This letter is our final determination that you don't qualify for tax-exempt status under Section 501(c)(6) of the Internal Revenue Code (the Code). 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 Section 6110 of the Code) 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,

Jeffrey I. Cooper
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: January 13, 2017

Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B = State
C = Date
D = Number
E = Number
F = Number

x dollars = Amount

Dear _____ :

We considered your application for recognition of exemption from federal income tax under Section 501(a) of the Internal Revenue Code (the Code). Based on the information provided, we determined that you don't qualify for exemption under Section 501(c)(6) of the Code. This letter explains the basis for our conclusion. Please keep it for your records.

Issues

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

Facts

Several years ago, you began with just a few members who decided to meet weekly to network and share business tips and trends within their particular line of business. You grew over the years and consequently decided to incorporate under B's nonprofit statute. As the group expanded and evolved, the mission changed to more of an educational focus with emphasis on enhancing the professionalism of each member's business. On C in B you reincorporated to reflect these changes. Per your Articles of Incorporation, your purpose is to operate exclusively as a not-for-profit organization of business persons within the community to gather together to further the education of your members as to professional development, communication and networking. Every member has been unanimously voted into your network based upon their expertise and excellence. Furthermore, any member may sponsor a prospective member and present him to your membership as a guest. Your entire membership must then decide unanimously whether this prospective member will fill a vacant profession or business category that is advantageous to you.

Your activities consist of members meeting weekly for breakfast at the same location and the same time. Your members have the responsibility when scheduled, to provide the program which involves a thirty minute presentation for the scheduled meeting and, therefore must:

UIL:

501.06-00

- Attend the meeting and either speak or arrange for a guest speaker who provides the presentation on recent developments in their profession or business.
- Invite members to visit the member's place of business.

Your bylaws indicate your mission is to provide education and professional development to your exclusive network of professionals who excel in their field of practice. They also state you are a community of diverse, business professionals dedicated to cultivating long-term relationships through the sharing of ideas, experiences, resources, and business referrals.

Your membership provisions listed in your bylaws are as follows:

1. Membership shall be limited to D persons; however, this limitation may be modified by the affirmative vote of 75 percent of the membership in good standing, excluding affiliate members.
2. One representative shall be allowed, as a recognized member, for each business or profession (category). If one member representing a business or profession is desirous of allowing an "affiliate" member to also attend your scheduled meetings and other affairs, said member is entitled to do so, upon approval by the Board of Directors. The member shall ensure that you receive adequate compensation for the additional expenses incurred by virtue of the "affiliate" member's attendance at your meetings and/or events. The affiliate member shall not be entitled to vote unless the recognized member is not present at the time of the vote. Should the affiliate member eventually replace the existing member, they must apply to be voted on as a new member.
3. If one member representing a business or profession changes their profession to one which is represented by another member, such existing member in that category shall be the only representative of the common profession. No member shall represent more than one category.
4. In the event certain members represent overlapping professions, a majority of the general membership may vote to suspend the application of provision 2 above. The provisions of this section shall apply only upon the approval of all the members of the overlapping professions.
5. All businesses and respective members must be based within the State of B and provide a location and serve the community.
6. The members shall be committed exclusively to you and shall not become a member or affiliate, directly or indirectly, with any other networking organization; said prohibition excludes charitable and/or civic organizations or chambers of commerce.

Your Board of Directors per your bylaws is composed of your Officers and E additional Board members, elected by a majority of a quorum of your general membership. Your officers consist of the President, Vice-President, Secretary, Treasurer, Sergeant at Arms, and your Past President. The main duties of the officers are as follows:

- The President will preside at all your meetings and guide your affairs. The President also has the specific authority to appoint individuals to serve and/or lead committees.
- The Vice President will record attendance and the number of weekly business referrals (leads) and keep an active role of all your members. The Vice President presents, at any regularly or specially scheduled Board meeting, the report of the membership. Additionally, the Vice President shall act in the President's absence at all duly scheduled meetings and/or events.
- The Secretary will record and report the minutes of each meeting and maintain records.

- The Treasurer shall collect and maintain a record of all dues paid and/or owing by your membership, maintain and prepare a proper accounting of all income and expenditures relative to the business affairs and activities, present a monthly financial report to the President, for review and affirmation by the Board of Directors, and perform such other and further duties as requested by the President.
- The Sergeant at Arms shall have the responsibility to ensure that the location for your meetings or other scheduled events is available and suitable for its intended purpose and act as a liaison with any vendor to ensure that your needs are met. Additionally, the Sergeant at Arms shall assist the President at all meetings in performing the normal duties of the Sergeant at Arms, including, but not limited to, maintaining a record of the number and extent of weekly business referrals/tips (leads) and the appropriateness of same.

You are supported by dues from members which are currently x dollars per quarter per member. In addition, you impose fines for those members who do not give a business lead to another member at your weekly meetings. Further, the Sergeant at Arms is responsible for enforcing the collection of these fines. The Sergeant at Arms also has the discretion to challenge any member whose tip/lead is deemed inappropriate and not consistent with the spirit and intent of providing business leads to your members. Your bylaws indicate "Before the conclusion of any business meeting, the Sergeant at Arms shall collect all fines and deposit them with the Treasurer with the spirit and intent of providing business leads to members."

Finally, you indicated that it is not your aim to exchange business between members. If your members wish to conduct business among themselves that is their decision, however, membership within you imposes no such responsibility upon the individual members.

Law

Section 501(c)(6) of the Internal Revenue Code of 1986 provides exemption from federal income tax for business leagues not organized for profit, and no part of the net earnings of which inure 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 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 59-391, 1959-2 C.B. 151, held that an organization composed of individuals, firms, associations and corporations, each representing a different trade, business, occupation or profession whose purpose is to exchange information on business prospects has no common business interest other than a mutual desire to increase their individual sales. The activities are not directed to the improvement of one or more lines of business, but rather to the promotion of the private interests of its members and is not exempt under section 501(c)(6) of the Code.

Revenue Ruling 73-411, 1973-2 C.B. 180, describes an organization that was not structured along industry or business lines but was composed of various types of businesses and commercial endeavors comprising a shopping center. Therefore its right to right to exemption, if any, had to rest on its characterization as a chamber of commerce or board of trade or similar organization. The revenue ruling further indicates that chambers of commerce and boards of trade direct their efforts at promoting the common economic interests of all the commercial enterprises in a given trade community. In the case of a chamber of commerce or similar organizations, the common business interest is usually the general economic welfare of a community. Membership is voluntary and open generally to all business and professionals in the community.

Application of law

You are not described in IRC 501(c)(6) and Treas. Reg. Section 1.501(c)(6)-1 because the facts show you are not formed to promote the common business interests of a particular industry or trade, but rather you are formed to benefit your members' business interests. Your membership is restricted to D noncompeting members and just one representative from each type of business or profession. The exception in your bylaws allowing members with overlapping professions only with the approval of all the members of the overlapping provisions also indicates you are operating for member's interests. In addition, the restriction in your bylaws that reads "The member shall be committed exclusively to you and shall not become a member or affiliate, directly or indirectly, with any other networking organization; said prohibition excludes charitable and/or civic organizations or chambers of commerce" indicates you are operating for non 501(c)(6) purposes.

You are like the organization described in Rev. Rul. 59-391. Your membership consists of vetted professionals from different types of businesses which are not in competition with one another. In addition, the provision in your bylaws that requires your Sergeant at Arms as one of his duties to maintain a record of the number and extent of weekly business referrals (leads) and the appropriateness of same and the fact members are fined if they do not provide a lead at your meetings illustrates you have no common business interest other than a desire to increase business prospects of your members.

Like the organization in the Revenue Ruling Revenue Ruling 73-411, you are not structured along any particular industry or business lines. You are composed of various types of businesses. Therefore, to meet exemption under IRC 501(c)(6), you must depend on being characterized as a chamber of commerce. Because your membership is not open to all businesses in your community but only to one business per category, you do not meet the definition of a chamber of commerce within the meaning of IRC 501(c)(6) as explained in this revenue ruling.

Your position

You wrote that that your membership is limited to one representative of F separate business/industry lines selected by design to represent a cross section of businesses/ industries in the geographic area. Your programs are structured to educate members on community trends, best practices, ethical professionalism and most of the members in turn take this information back to their specific industry group. For example, the attorney takes this back to his local bar, the CPA back to the sub groups with various specialties in the accounting area, the financial investment adviser takes information back to the financial planning community and so on. In this manner, you have the potential to impact thousands in the community thanks to the different business/industry representatives. By restricting the group to F members, the members give voice to F different business/industry representatives and are not constrained by one group dominating another due to their large underlying membership numbers. They have found that this business model allows for much better goal attainment and dissemination of information throughout the community. And of course your members make referrals to each

other. However the purpose for setting up this group is to enhance the competence, ethics, professionalism of members and the business lines they represent.

Our response to your position

You failed to provide any additional information from which it can be concluded that you are primarily organized and operated in accordance with IRC 501(c)(6). Even though you claim your programs are structured to educate members on community trends, best practices, ethical professionalism and most of the members in turn take this information back to their specific industry group, the facts show you are restricting membership to one member per individual category, which benefits individual members by giving them leads and a competitive advantage. This is primary and excludes you from exemption under IRC 501(c)(6).

Conclusion

Your membership constraints show that your primary purpose is to further the private interests of your individual members and not the improvement of business conditions of one or more lines of business. You have no common business interest other than a mutual desire to increase member's business prospects. Your activities are not primarily directed to the improvement of business conditions of one or more lines of business nor for the common economic interests of all the businesses in a given trade community as in the case of a chamber of commerce, but rather to the promotion of the private interests of your members as illustrated by the restrictive nature of your membership. Therefore, you not meet the requirements for exemption under IRC 501(c)(6).

If you don't agree

You have a right to file a protest if you don't agree with our proposed adverse determination. To do so, you must send a statement to us within 30 days of the date of this letter. The statement must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A copy of this letter highlighting the findings you disagree with
- An explanation of why you disagree, including any supporting documents
- The law or authority, if any, you are relying on
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization, or your authorized representative
- One of the following declarations:

For an officer, director, trustee, or other official who is authorized to sign for the organization:

Under penalties of perjury, I declare that I examined this protest statement, including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts and such facts are true, correct, and complete.

For authorized representatives:

Under penalties of perjury, I declare that I prepared this protest statement, including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts 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 he or she hasn'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 provided a basis for us to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't provided a basis for reconsideration, we'll forward your case to the Office of Appeals and notify you. You can find more information about the role of the Appeals Office 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 at a later date because the law requires that you use the IRS administrative process first (Section 7428(b)(2) of the Code).

Where to send your protest

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

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Room 7-008
P.O. Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Room 7-008
Cincinnati, OH 45202

You can also fax your statement 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 he or she received it.

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.

You can find all forms and publications mentioned in this letter on our website at www.irs.gov/formspubs. If you have questions, you can contact the person listed at the top of this letter.

Sincerely,

Jeffrey I. Cooper
Director, Exempt Organizations
Rulings and Agreements

Enclosure:
Publication 892