



DEPARTMENT OF THE TREASURY

Internal Revenue Service  
TE/GE EO Examinations  
1100 Commerce Street MC 4920 DAL  
Dallas, TX 75424

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Date: SEP 21 2017

Number: **201809007**  
Release Date: 3/2/2018

Person to Contact:  
Identification Number:  
Contact Telephone Number:  
In Reply Refer to:  
EIN:

LAST DATE FOR FILING A PETITION  
WITH THE TAX COURT:

UIL Code: 501.06-00

CERTIFIED MAIL - Return Receipt Requested

Dear :

This is a Final Adverse Determination Letter as to your exempt status under section 501(c)(6) of the Internal Revenue Code (IRC). Your exemption from Federal income tax under IRC section 501(c)(6) is hereby revoked effective for the tax year ending December 31, 20xx.

Our adverse determination was made for the following reasons:

You have not established that you are operated as a business league under IRC section 501(c)(6) having a common interest to promote the common business interest and not to engage in a regular business of a kind ordinarily carried on for profit.

You are required to file Federal income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for the year ending December 31, 20xx and for all years thereafter.

Processing of income tax returns and assessment of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Internal Revenue Code.

If you decide to contest this determination in court you must initiate a suit for declaratory judgment in the United States Tax Court, the United States Claim Court or the District Court of the United States for the District of Columbia before the 91<sup>st</sup> day after the date this determination was mailed to you. Contact the clerk of the appropriate court for the rules for initiating suits for declaratory judgment.

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. We can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for our assistance, which is always free, we will do everything possible to help you. Visit [taxpayeradvocate.irs.gov](http://taxpayeradvocate.irs.gov) or call 1-877-777-4778.

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

Sincerely yours,

Maria Hooke  
Director, Exempt Organizations Examinations

Enclosures:  
Publication 892



Department of the Treasury  
Internal Revenue Service  
Tax Exempt and Government Entities Division  
Exempt Organizations Examinations

Date:  
October 6, 2016  
Taxpayer Identification Number:

Form:

Tax year(s) ended:

Person to contact/ ID number:

Contact numbers:

Toll Free

Long Distance

Fax:

Manager's name/ ID number:

Manager's contact number:

Response due date:

**Certified Mail - Return Receipt Requested**

Dear \_\_\_\_\_ :

**Why you are receiving this letter**

We propose to revoke your status as an organization described in section 501(c)(6) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

**What you need to do if you agree**

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(6).

**If we don't hear from you**

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

**Effect of revocation status**

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

**What you need to do if you disagree with the proposed revocation**

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You may also file a protest with the IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information including a statement of the facts, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

**Contacting the Taxpayer Advocate Office is a taxpayer right**

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't been resolved through normal channels gets prompt and proper handling. You may call toll free 1-877-777-4778 and ask for Taxpayer Advocate assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service  
Office of the Taxpayer Advocate

**For additional information**

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Margaret Von Lienen  
Director, Exempt Organizations Examinations

Enclosures:  
Report of Examination  
Form 6018  
Publication 892  
Publication 3498  
Form 886-A, Form 4621-A

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>	Schedule number or exhibit  PC8002
Name of taxpayer	Tax Identification Number	Year/Period ended 20xx12

**Draft Report:**  
**Date:**

### Issue

1. Whether \_\_\_\_\_ (organization) continues to qualify for exemption under IRC Section 501(c)(6) Business League.
2. Whether the organization's exemption as described under Section 501(c)(6), should be revoked effective January 1, 20xx.

### Facts

- \_\_\_\_\_ was granted exemption from federal income tax, under Section 501(c)(6) of the Internal Revenue Code as stated in Letter of Determination 948 dated July 18, 20xx.
- The organization was incorporated under the laws of the State of \_\_\_\_\_ dated September 24, 20xx.
- The organization is a group of small business owners who meet to encourage ideas to help increase their business size. Members speak about their business on a rotating basis to help them learn more about each of the members business. Everyone participates, and at the end of the meeting, every member gets 30 seconds to give a commercial about what kind of business they are looking for.
- The organization filed Form 990N for 20xx tax year on January 9, 20xx, with a filing requirement due date of May 15, 20xx.
- The organization was selected for audit to ensure that the examined organization's activities and operations align with the approved exempt status under Section 501(c)(6) Business League.
- The Form 1024 application described the organization's mission as: Our purpose is to work together to strengthen and build businesses in the local community.
- The goal is to promote the growth of small business in their community, to encourage business being done among the members.
- The organization meets on a weekly basis for approximately 2 hours each Tuesday at a local restaurant to learn about each other's businesses, evaluate prospective new

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members, and ensure the proper flow of the association. The organization meets once a quarter for a "business mixer" which is an informal gathering designed to bring perspective members to a more social atmosphere. At the meetings, they share what business was passed between members, and have two featured speakers (members) per week who talk about their business and what clients they are looking for currently. Business cards are handed out amongst members.

-It appears relevant that its activities 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 its members, which membership is limited by the organization's bylaws to one representative from each line of business.

-Financial support is solely provided by membership dues and quarterly membership dues

-Members are fined if they do not participate in the weekly meetings, attend the quarterly mixer, speaking out of term in the meetings (Roberts Rules of Order), and if they are short on tips.

-Tips are when a member recommends their customer to another business within the organization. They have to have at least four recommendations a month or they will get fined.

-The organization failed to respond to the Internal Revenue Service requested to obtain additional information on the activities for the tax period ending December 31, 20xx.

-Its principal activities were advertising for its members through the organizations' website and word of mouth through members. These activities are considered a personal benefit to members of a commercial nature and would preclude exemption.

**Correspondence for the audit was as follows:**

June 4, 20xx- Initial Letter 3606 with Information Documents Request (IDR) sent to (organization) by Revenue Agent

June 29, 20xx- Received reply from the organization. serving as Secretary for the

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January 11, 20xx- Letter 3844-B follow up letter requesting missing information sent certified, receipt #xxxx-xxxx-xxxx-xxxx-xxxx-xx. Received back and signed by  
on January 25, 20xx.

February 5, 20xx- Received response by fax from \_\_\_\_\_, Secretary.

February 5, 20xx- Received response by fax from \_\_\_\_\_, Vice President.

**Telephone and email contact (permission received from my detailed manager, to email) for the organization was as follows:**

February 24, 20xx- Call made to \_\_\_\_\_ Vice Pres.. Left message.

February 25, 20xx- Left another message with \_\_\_\_\_

March 1, 20xx- Telephone conversation with \_\_\_\_\_, Sec., in regards to information requested for audit. \_\_\_\_\_ requested to be involved rather than \_\_\_\_\_, Pres. because he is more familiar with the organizational documents and exemption information. \_\_\_\_\_ only means of communication is by e-mail.

March 7, 20xx- Emailed \_\_\_\_\_ verifying the IDR is being reviewed by manager then the information will be emailed to him. \_\_\_\_\_ verified back the same day and asked if maybe the organization should have applied for a 501(c)(7) exemption. I advised \_\_\_\_\_ to research [www.irs.gov](http://www.irs.gov) to research his question.

March 11, 20xx- Emailed sent to \_\_\_\_\_ the Letter 3844-B with IDR with detailed information on what is requested for our audit. Email received from \_\_\_\_\_ (again) questioning on being a 501(c)(7) instead of a 501(c)(6).

March 14, 20xx- Emailed back to \_\_\_\_\_ that he can look into any questions he has on [www.irs.gov](http://www.irs.gov).

March 23, 20xx- Received email from \_\_\_\_\_ indicating that he is confused. I (TCO) emailed back requesting information as to why they (organization) think their organization qualifies as a business league in their own terms.

March 24, 20xx- \_\_\_\_\_ responded by email stating that the organization applied with a Form 1024 and received their letter of Determination allowing them to be a 501(c)(6)

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what more do we need? All the information came with the application and based upon that they were approved.                      wants more details.

March 25, 20xx- I (TCO) emailed back stating that I sent the information by mail before, requested a current /valid address to send the IDR on what we are requesting in the audit, but no answer.

-Received an email the same day from                      stating the following information:

“Can you just scan it and email to me?

Do you think you are going to get different answers this time around?

I am not meaning to be rude or cantankerous, but we run businesses, we aren't bureaucrats who have nothing better to do than fill out forms and force the producers of this country to redo paper work over and over again. We are in competition with other businesses that are not going through this process at the same time. In the meantime we volunteer to be on a board of group that is clearly not for profit, brings in less than xxk a year in dues, and simply is trying to help businesses in the community to survive in difficult economic times. To, on a yearly process have, to redo forms you already have and have approved is ridiculous.

Meanwhile I asked the president of                      how we are supposed to be doing this and her response is she can't get straight answers from the IRS either. First we were all told 501c6 was correct so we filed, paid the \$xxx and were approved based on what she was told from the IRS. Now she is being told that the individual chapters should file 501c7, hence the reason I asked you. We don't know which way is up and we simply don't have time to keep redoing your paperwork.

To put it another way I already did a 1024 a year ago, I am being asked to go through that again and I really don't want to keep doing this every year. I don't believe the answers I am getting from you are straight. I don't trust the process and I don't understand why you are putting us through this.

My question is simple, an IRS official went through this process already and we were approved. What was wrong with that process that we are back to square one? Did they not do their job?”

I sent another copy of the IDR for                      understanding and allowed a few days for him to do some research.

April 19, 20xx- Received Email from                      indicating that he is still trying to formulate a response.

May 2, 20xx- Emailed message to follow up on response.



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May 21, 20xx- responded as he still going through things carefully (and frankly have been way busy). Did we originally apply as non-profit or not for profit? I responded by him looking up the application Form 1024 and review the information that they completed.

June 28, 20xx-I emailed informing him that I am processing and completing revocation documents along with Letter 3618(30 day proposed revocation) and will be mailing it certified to the current address on the module ( ). Did not send, received response on July 28, 20xx.

June 28, 20xx-email from : I am sorry I still have not sent a response. May I still do that? I acknowledged the request and allowed him to send final information. Allowed 30 days.

July 29, 20xx-Email from stating the fact:

"I am responding via email although I feel a bit like I am shooting in the dark since you are not giving me clear direction on what it is you are having trouble with. If this is not sufficient please let me know.

You made reference in your response to a "significant number of Revenue Rulings and court case decisions in this area" and then provided 1 example. So clearly at issue is the one example which is a ruling from 19xx (some xx years ago). In that decision several points were made:

- 1) The members have no common business interest:

Answer: This would not apply to us as we most certainly have a common business interest and that is to ensure a business environment in whereby all our members can succeed. We want to see the business community thrive and prosper and to this end we meet and attempt to strengthen the business community in .

- 2) It makes reference to a limitation of membership as a measuring stick by which to make their decision.

Answer: We question the validity of such a measuring stick. The measuring stick for not for profit status is not and should not be the makeup of its membership. Let me digress and point out that in the xx years since that decision there has been zero cases where another judge came to such a conclusion. This is significant because there has been many, many similar organizations that have applied and received not for profit status over

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the last xx years. Are we to assume the one off decision is the correct one or are we to assume the decision reached by literally thousands of IRS determinations since are correct? We believe the spirit and intent of the IRS not for profit status is that if the group in question was designed to not make profit in any form then it is a not for profit entity by definition. Further if it's financial history confirms that intent then it is not for profit.

Whether the individual members, as a result of being a part of said group make a profit is irrelevant as they will pay taxes on their profit individually anyway.

- 3) Lastly there is a significant difference between the organization in the 19xx court case and (and local chapters in general). According to the decision the association income was dispersed for salaries, contact expenses, luncheons and dinners for members, rent and other office expenses. Our income is dispersed for weekly breakfasts, quarterly informal meeting we call a "mixer", and incentive rewards that are paid with the intent of encouraging members to do the things that will help their business flourish. All board members are volunteers, no one gets a salary. We have no building that we rent and minimal office expenses that are almost exclusively incurred trying to meet the requirements of the IRS. Based upon the expenses listed in the 19xx case it would appear that the group was a front for funding a high end recruitment process for a high end social club. They were using funds to pay an employee (salaries) to sit in an office (rent and other office expenses) and recruit potential participants (contact expenses). It was a one off situation that needed a one off court decision to address it. In no way does this model match which has been referred to by most who have actually seen how it works as "

### Tax Law

- Internal Revenue Code (IRC) 501(c)(6) provides for the exemption of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues (whether or not administering a pension fund for football players), which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

- Federal Tax Regulations 1.501(c)(6)-1 define a business league as an association of persons, including legal entities such as trusts and corporations, having a common business interest. Its purpose is to promote the common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities are

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directed to the improvement of business conditions of one or more lines of business rather than the performance of particular services for individual persons.

-Chambers of commerce and boards of trades are of the same class as business leagues, but rather than promoting one or more lines of business, their efforts are directed to promoting the common economic interests of all commercial enterprises in a given trade community. The requirements for exemption of these organizations are substantially the same as for business leagues.

-To be exempt as a business league, an organization must show that its purpose is improving business conditions of one or more lines of business. Similarly, the activities of chambers of commerce and boards of trade are directed towards improving business conditions in a trade community.

*-Exchange of business information*—An organization that restricts its membership to individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession, and which is organized for the purpose of exchanging information on business prospects, is not entitled to exemption as a business league under IRC 501(c)(6). Its members have no common business interest other than a desire to increase their individual sales. Distinguished by Rev. Rul. 70-641, 1970-2 C.B. 119. *Rev. Rul. 59-391, 1959-2 C.B. 151*

-Rev. Rul. 59-391, 1959-2 C.B., Holds that an organization whose membership is so restricted that each member represents a different trade, business, occupation, or profession does not qualify for exemption under section 501(c)(6) of the Code. This Revenue Ruling stresses that the members of such an organization have no common business other than a mutual desire to increase their individual sales and that the activities of such an organization are not directed to improve of business conditions of one or more lines of business. It notes particularly that the membership characteristics of such an organization also preclude its classification as a local board of trade or chamber of commerce, observing in that respect that 'such organizations do not limit their membership in the manner employed in the instant case.' Also part of Rev. Rul. 73-411, 1973-2 C.B. 180

-Luncheon and bar facilities—An organization of business and professional persons of a community providing luncheon and bar facilities for its members, but having no specific program directed to the improvement of business conditions, does not qualify for exemption under IRC 501(c)(6). Rev. Rul. 70-244, 1970-1 C.B. 132.

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-An organization composed of businessmen may qualify for exemption under IRC 501(c)(6) where its activities are limited to holding luncheon meetings devoted to discussion, review, and consideration of the various problems in a particular industry, and are directed to the improvement of business conditions as a whole. *Rev. Rul. 67-295, 1967-2 C.B. 197.*

-Directory of members published; franchises granted—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 IRC 501(c)(6). *Rev. Rul. 76-409, 1976-2 C.B. 154 .*

7.25.6.7.1 (10-19-1998)

**-Advertising Activities**

(1) Advertising that carries the names of members generally constitutes the performance of particular services for members. Thus, an association of the merchants in a particular shopping center whose advertising material contained the names of the individual merchants was denied exemption (see *Rev. Rul. 64-315, 1964-2 C.B. 147*)

(Pub. 557)

**-Improvement of business conditions**

Generally, this must be shown to be the purpose of the organization. This is not established by evidence of particular services that provide a convenience or economy to individual members in their businesses, such as advertising that carries the name of members, interest-free loans, assigning exclusive franchise areas, operation of a real estate multiple listing system, or operation of a credit reporting agency.

### **Organization's Position**

The Organization's position on the issue(s) is that he is comparing the organization to a Chambers of Commerce and does qualify.

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### Government's Position

- The Service position is that the Organization has failed the basic tests in order to be exempt under IRC 501(c)(6). The Basic Tests the Organization must meet in order to be exempt under IRC 501(c)(6) are as follows:

1. It must be an association of person having some common business interest, and its purpose must be to promote this common business interest.
2. It must be a membership organization and have a meaningful extent of membership support.
3. Its activities must 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.
4. It must be primarily engaged in activities or functions constituting the basis for its exemption.
5. Its primary activity cannot be performing particular services for members.

-Since the advertisement and promotion are the organizations principal activities, the organization does not qualify for exemption from Federal income tax under Section 501(c)(6) of the Internal Revenue Code.

-The primary activity of an IRC section 501(c)(6) organization must be the sharing and promotion of a common business interest of its members. If the primary activity is providing particular services or benefits to its members, the organization does not qualify for exemption.

-Trade associations or business leagues are similar to chambers of commerce or boards of trade, 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. This does not apply to this organization since their members represent multiple lines of businesses.

-Since the organization is not structured along a particular industry or business lines but composed of various types of businesses with only one representative from each line of business, its right to exemption, if any, must rest on its characterization as a chamber of commerce or board of trade or similar organization. It is apparent at the outset, however, that the membership feature being limited to one representative from a different line of business is not meeting the generally accepted definition of a chamber of commerce.

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-In the case of a chamber of commerce or similar organization, the common business interest is usually the general economic welfare of a community. Membership is voluntary and open generally to all business and professional men in the community. It has been accepted that an organization seeking exemption from Federal Income tax under section 501(c)(6) of the Code as a chamber of commerce or board of trade must be one whose efforts are directed at promoting the common economic interests of all the commercial enterprises in a given trade community. *Retailers Credit Ass'n of Alameda County v. Commissioner of Internal Revenue*, 90 F.2d 47 (9th Cir. 1937); *Northwestern Municipal Ass'n. v. United States*, 22 F.Supp. 18 (D.Minn. 1938), *aff'd*, 99 F.2d 460 (8th Cir. 1938).

### Conclusion

Based on the facts presented above, the organization has failed the operational test required of 501(c)(6) organization. The organization's operations show it is composed of individuals, associations and corporations, each representing a different trade, business, occupation or profession, whose purpose is to exchange information on business prospects, and has no common business interest other than a mutual desire to increase their individual sales. The activities are not directed to the improvement of business, but rather to the promotion of the private business interests of its members.

The primary activity of an IRC section 501(c)(6) organization must be the sharing and promotion of a common business interest of its members. If the primary activity is providing particular services or benefits to its members, the organization does not qualify for exemption.

Moreover, since the organization actively requires that its members give preference to one another in business transactions, for their mutual and exclusive benefit, it is not considered to be the type of an organization for which an exemption from tax was intended.

Exemption will be revoked retroactive to effective date of January 1, 20xx, and is required to file Form 1120 for the applicable tax periods.