



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

Date:
September 26, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

Number: **201951010**
Release Date: 12/20/2019

UIL: 501.03-00, 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,

Stephen A. Martin
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:
May 30, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

W = company
X = state
Y = date
z dollars = amount

UIL:

501.03-30
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 section 501(c)(6) of the Code? No, for the reasons stated below.

Facts

You were incorporated in X on Y through a conversion after being formed as a limited liability company. Your Articles state you are formed for the purpose of helping members increase their business through a structured, positive and professional referral marketing program as a chapter of W, which enables you to develop long term, meaningful relationships with other business professionals.

You provide weekly meetings and exclusive resources to help business owners build a strong network that fuels professional growth. Being a chapter of W, you are built on a set of principles which form the foundation on which members interact and conduct themselves. You state a philosophy of W is if a member gives business to other members in return they will want to give business back.

Only one person from each professional classification is permitted to join your membership. You define professional classification as a defined group or business type industry. You currently have five professional categories: Financial, Home Services, Business Services, Events and Health and Wellness. Within each of these categories, one professional can become a member to represent their profession or trade. You only allow one member per profession.

Your membership committee has final authority in relating to classification conflicts. This ensures that the member holds exclusive interest within their profession and there is no internal competition for referrals. Members wishing to change their classification must submit a new application and get approval from your committee for the change. You charge z dollars per month to become a member.

You stated that during your weekly meetings each member will present their business and has a one minute presentation in which to promote their business. The members common business interest is for the chapter to grow by adding additional members to business categories not already taken by an existing member and to pass referrals. You encourage members to build relationships, which in turn create opportunities to utilize each other as a referral source. Referrals and testimonials are listed as the most important part of your meetings. You stated that when a client has a need, members have a pool of business categories within the chapter ready to pass those referrals. You also indicated visitors are integral to promoting growth in the open areas of consideration – your minutes show visitors are given the chance to educate members about their business and are later told how to “lock out your competitors” from your chapter.

When asked, you described your common business interest as the members’ interest for the chapter to grow by adding additional members to business categories not already taken by an existing member and to pass referrals. Members build relationships and create opportunities to utilize each other as referral sources. When a client has a need members have a pool of categories with which to pass referrals. Your minutes show time devoted toward tracking the performance of business passed between members, reporting on the number of monthly referrals and total referrals to date.

Law

Section 501(c)(6) of the Code provides for the exemption from federal income tax of 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.

Treasury Regulation Section 1.501(c)(6)-1 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 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. 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. 66-338, 1966-2 C.B. 226, holds that an organization formed to promote the interests of a particular retail trade which advises its members in the operation of their individual businesses is not exempt from federal income tax under section 501(c)(6) of the Code. By enabling members to more easily secure consultation

services, supplies and equipment, the organization is providing members with an economy and convenience in the conduct of their individual businesses that would not have been available if they had to secure them on an individual basis.

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. 70-244, 1970-1 CB 132, states the organization's membership consists of business and professional persons in the community. Its articles of incorporation state it was formed to bring together members and their guests to exchange ideas for improving business conditions within the community. It does not have any specific program directed to the improvement of business conditions in the community. Since this organization has no program designed to improve business conditions of one or more lines of business, it is held that the organization is not exempt from federal income tax under section 501(c)(6) of the Code.

Application of law

You are not described in Treas. Reg. Section 1.501(c)(6)-1 because the facts show you are not formed to promote the common business interest of a particular industry or trade; rather, you address the concerns and promote the interests of your members. You are furnishing particular information and specialized individual services to members through your referrals. This is done by helping members increase their business through a referral marketing program. You stated the only common interest between members is growing the chapter in additional business categories. Since you have no program designed to improve business conditions along one or more lines of business, it is held you are not exempt under Section 501(c)(6) of the Code.

Like the organization in Revenue Ruling 59-391, you are an association comprised of pre-selected, non-competing companies, represented by individual owners whom you have selected to represent their industries. This is evident in that only one member of each profession classification is allowed at one time. You restrict membership to who can join rather than the business community as a whole. Your members provide referrals to other members, build relationships to create opportunities and fuel growth. Your activities are not directed to the improvement of one or more lines of business, but rather to the promotion of the private interests of your members.

You are similar to the organization described in Rev. Rul. 66-338 and Rev. Rul. 68-264, as you conduct an activity that serves as a convenience for your members in the operation of their businesses. These organizations promoted the interests of a particular retail trade by advising its members in the operation of their individual businesses. This provided members with an economy and convenience in the conduct of their individual businesses that would not have been available if they had to secure them on an individual basis. You conduct weekly meetings for your members to interact and refer business in hopes of improving business sales for each other. As members see opportunity, they look to refer business to a fellow member for the benefit of that business. You track these referrals as a measure of success, and consider it as one of the most important parts of each meeting. This not only is performing particular services to members through networking but is also an activity of only looking to promote each member business rather than benefitting any particular industry as a whole.

You are similar to the organization in Revenue Ruling 70-244 in that you do not have any specific program directed to the improvement of business conditions in the community. The organization in this ruling brought members and their guests together to exchange ideas. You have described your activities as weekly meetings of members to help owners build a network for professional growth. Members are encouraged to bring visitors to fill in for categories not yet with members. No particular region or area is noted from which you recruit members, no benefits to the community referenced, outside of promoting the chapter presence for the purpose of gaining members. Since you have described no programs designed to improve business conditions of one or more lines of business, but instead networking opportunities for members, you do not qualify under Section 501(c)(6) of the Code.

Conclusion

Based on the above facts and law, we conclude you do not qualify for exemption under section 501(c)(6) of the Code. Your activities are not directed to the improvement of business conditions of one or more lines of business nor do you share any common business interest. Rather, your activities and purposes are directed at the improvement of your members' businesses. Accordingly, you do not qualify for exemption as an organization described in 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 Decision 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
P.O. 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