



Department of the Treasury  
Internal Revenue Service  
Tax Exempt and Government Entities  
PO Box 2508  
Cincinnati, OH 45201

Date:  
January 11, 2022  
Employer ID number:

Form you must file:

Tax years:

Person to contact:  
Name:  
ID number:  
Telephone:

Number: 202214015  
Release Date: 4/8/2022

UIL: 501.06-00, 501.06-01

Dear :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(6). 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 the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit [www.irs.gov](http://www.irs.gov).

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 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 call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen Martin  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures:  
Letter 437  
Redacted Letter 4034  
Redacted Letter 4038



Department of the Treasury  
Internal Revenue Service  
PO Box 2508  
Cincinnati, OH 45201

**Date:** November 2, 2021

**Employer ID number:**

**Person to contact:**

Name:

ID number:

Telephone:

Fax:

**Legend:**

B = Date

C = State

D = Organization

**UIL:**

501.06-00

501.06-01

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 IRC Section 501(c)(6)? No, for the reasons stated below.

**Facts**

You were incorporated on B in C as a membership organization. You have been filing Form 1120, U.S. Corporation Income Tax Return, since incorporation.

Your mission is to recruit accredited investors to your membership and provide them with angel investing education and opportunities to individually invest in early stage businesses. You make yourself known to early stage businesses in your geographic region that are raising capital. These businesses then provide you with their business plans and financing needs. Your screening committee will review their applications and coach them on their presentations. Monthly meetings are held for your members to hear the presentations and meet the business owners. Members can then discuss the business and get multiple points of view about the investment profile and valuation. If members express an interest, they will join your due diligence committee and individually decide whether to invest. You will also help your members execute the investment transaction as well as arrange for periodic updates. Membership is invitation-only.

You are supported by annual membership dues which cover meeting costs, website development and maintenance, financial analysis of the start-up businesses, and corporate dues to D, an angel investing association.

During review of your application, we requested additional information regarding your activities and membership.

Your mission is promoting investments in startup businesses. You strive to help members make informed investment decisions for themselves. You state that the vast majority of your activities are geared towards education, educating members to make better-informed investment decisions through active participation in learning about startup businesses, their business plans, potential, valuation, and leadership teams. Members must be accredited investors and willing to invest in startup businesses. They engage in active discussions to learn more about the startup businesses' management teams, products/services, financing needs, and investment profile. They have broad backgrounds in science, technology, marketing, and finance.

Your website states you are an angel network:

- A group of accredited investors
- Invest their own individual capital
- Seek seed and early stage investments
- Primarily in the C region

#### **Law**

IRC Section 501(c)(6) exempts from federal income tax 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.

Treasury Regulation Section 1.501(c)(6)-1 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 a kind ordinarily carried on for profit. 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. An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated. A stock or commodity exchange which serves its members as a convenience and economy in buying and selling is not a business league, a chamber of commerce, or a board of trade within the meaning of IRC Section 501(c)(6) and is not exempt from tax.

Revenue Ruling 56-84, 1956-1 C.B. 201, held that an organization that is operated primarily for the purpose of promoting, selling and handling the national advertising in its members' publications is not entitled to exemption from federal income tax as a business league under IRC Section 501(c)(6). Such activities constitute the performance of particular services for the individual members as distinguished from activities for the improvement of the business conditions of its membership as a whole.

Rev. Rul. 58-224, 1958-1 C.B. 242, held that an organization whose sole activity is to conduct an annual trade show, not held in conjunction with a convention or annual meeting, but held only for the purpose of bringing buyers and sellers together, is not exempt under IRC Section 501(c)(6). The ruling concluded that the activities of the organization substantially serve its members as a convenience and economy in the conduct of their

businesses. Therefore, the organization is rendering particular services for individual persons as distinguished from the improvement of business conditions generally.

Rev. Rul. 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 IRC Section 501(c)(6).

Rev. Rul. 67-182, 1967-1 C.B. 141, considers the exempt status of a nonprofit organization whose only activity is providing a reference library of "electric logs," maps, and oil publications, and oil information services, as well as other matters which are a source of geological data, for its members' use as an aid in their oil exploration businesses. The organization made specialized information available to its members on a cooperative basis, which serves as a convenience and economy in the conduct of their businesses. Furthermore, since membership is limited and the facilities of the organization are made available only to participating members, the organization's activities are not aimed at the improvement of business conditions in the industry as a whole. The ruling found that operation of the library as described is an activity which constitutes the performance of particular services for individual persons. Accordingly, the organization does not qualify for exemption from federal income tax under IRC Section 501(c)(6).

Rev. Rul. 70-80, 1970-1 C.B. 130, considers a nonprofit trade association of manufacturers in a particular line of business whose members consist of a small number of manufacturers in the industry. Although membership in the association is open to all manufacturers in the industry, a significant number of manufacturers have chosen not to join the association. The ruling held that because the association directs its activities solely to the benefit of its limited membership, it is not directing its activities to the improvement of conditions in a business line and is, thus, not exempt under IRC Section 501(c)(6).

Rev. Rul. 76-366, 1976-2 C.B. 144 held that an association of investment clubs formed to enable members and prospective investors to make sound investments by the mutual exchange of investment information, does not qualify for exemption from federal income tax. The association carried on not only educational activities, but other activities directed to the support and promotion of the economic interests of its members. Moreover, by furnishing information to prospective investors to enable them to make sound investments, the association is serving private interests.

In Produce Exchange Stock Clearing Association v. Helvering, 71 F.2d 142 (2nd Cir. 1934), the Second Circuit held that there was no reason apparent for granting exemption as a business league to a clearing house association that served each member as a convenience or economy in his business by providing facilities for dealings in securities and commodities. The court found that nothing was being done by the organization to advance the interests of the community or to improve the standards or conditions of a particular trade, and that the purpose of the organization was to provide a business economy or convenience for individual traders. In denying the exemption under section 103 of the Revenue Act of 1928 (predecessor statute to IRC Section 501(c)(6)), the court explained that merely serving as a convenience to members is not a characteristic shared by the entities listed in the statute.

In Northwestern Municipal Association, Inc. v. United States, 99 F.2d 460 (8th Cir. 1938), the Eighth Circuit held that an organization of investment brokers, whose purpose was to represent the interests of municipal

bondholders, and which was formed to perform services members would have been required to perform themselves in making bond investments, was not exempt under IRC Section 501(c)(6) because the organization's primary activities were found to constitute the performance of particular services for individual persons. The enterprise was undertaken as a cooperative endeavor to render services which the separate members might have been required to furnish and its main purpose was to benefit bondholders. The court concluded "if its [the organization's] main purpose is to benefit its shareholders or individuals it is not exempt".

In General Contractors' Association of Milwaukee v. United States, 202 F.2d 633, 636 (7th Cir. 1953), the Seventh Circuit found that where membership dues supported a quality estimating service, as the primary activity of an association of general contractors, the benefits that the service afforded the members was an inurement of net earnings fatal to exemption under IRC Section 501(c)(6). The court held that where valuable services are rendered to individual members, as in this case, it may be said that part of the net earnings of a taxpayer do inure to the benefit of its members.

### **Application of law**

You are not described in IRC Section 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 perform particular services for your members and promote their individual interests. The aforementioned Treas. Reg. specifically states, "An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated". In your case, there is no common business interest other than a mutual desire to increase member investment returns. Your activities are a convenience and economy to your members in the conduct of their individual investing.

You are like the organizations in Rev. Rul. 56-84, 58-224, and 67-182 because you are providing particular services to members as distinguished from improvement of business conditions generally. You bring buyers and sellers together and help your members to make individual investments. You are easily compared to Produce Exchange Stock Clearing Association, where an organization provided a facility and exchange for the promotion of investment decisions. The court determined that because the organization was providing a convenience or economy to members in their security and commodity dealings rather than promoting the common business interests of a particular trade, there was no apparent reason for granting exemption as a business league. You can also be compared to Northwestern Municipal because, like that organization of investors, you were formed to perform services that your members would otherwise be required to perform themselves in making their individual investment decisions.

Similar to the organization in Rev. Rul. 76-366, you were formed to enable members to make sound investments by providing an exchange of investment information. The organization in the ruling also carried on not only educational activities but other activities directed to the support and promotion of economic interests of its members (like your monthly meetings and screening/due diligence committees). You are also serving private interests and do not qualify for exemption under IRC Section 501(c)(6). As the court concluded in Northwestern Municipal, if the organization's main purpose is to benefit individuals, it is not exempt. See also Rev. Rul. 59-391 and 70-80 where private interests precluded exemption under Section 501(c)(6).

You provide services to your members, such as financial analysis of their potential investment opportunities. An individual can only become a member if they're invited, are "accredited" investors, and willing to invest in startup businesses. Like the organization described in General Contractors' Association of Milwaukee, the

services you provide inure to the benefit of your members and are more than insubstantial. Accordingly, you are precluded from exemption under IRC Section 501(c)(6).

### **Conclusion**

Based on the information provided, we conclude that you are not operated as a business league described in IRC Section 501(c)(6). Your members have no common business interest other than to increase their individual investment returns and your activities are not directed at improving conditions of one or more lines of business. Rather, you provide particular services to members and are promoting the private interests of your members. Therefore, you do not meet the requirements for exemption under 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 Determination 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  
FO Determinations Quality Assurance  
Mail Stop 6403  
PO Box 2508  
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service  
FO 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](http://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](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements