



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

Release Number: **201944014**
Release Date: 11/1/2019
UIL: **501.06-00, 501.06-01**

Date:
August 6, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

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 9, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

X = Formation date

Y = State

z dollars = Minimum annual member investment

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

Facts

You were incorporated on X, under the laws of Y.

In your application you briefly described your activities as follows: You hold monthly meetings to hear early stage companies pitch their product or service and offer an investment opportunity to your members. If your members decide to invest they become mentors to the entrepreneurs. You are supported by member dues and sponsorship of events by interested parties. Dues collected are used to pay for educational events designed to teach members the nuances of "angel investing" and to pay for food and beverages served during monthly meetings. Your members must be accredited investors within the meaning of the Securities and Exchange Laws, and must make a minimum of one investment per year of at least z dollars.

Your website provides additional information. Benefits of membership include increased deal flow of top emerging companies across a broad range of industries; improved deal terms through collective deal screening, due diligence and investing; high quality monthly meetings where promising investment opportunities are reviewed; members only topic-specific educational sessions led by knowledgeable speakers and moderators; and membership in the _____ . Each week you review early and growth stage companies, inviting companies that are ready for investment to present at your monthly meetings. Your members will invest in seed or Series A financing of companies that are in "dynamic growth markets, have strong value propositions, a sound business plan, and a strong management team with deep market knowledge." You seek companies that have a potential to scale regionally, nationally, or internationally with a set exit path. There is a seven step process for entrepreneurs to present and potentially be funded by your members: (1) Submit

Application, (2) Prescreening, (3) Screening, (4) Presentation to Members, (5) Due Diligence, (6) Capital Commitments, and (7) Post Deal Stewardship. At the Capital Commitments stage, interested members will negotiate the term sheet and closing documents with a capital investment made to the company. In the Post Deal Stewardship phase entrepreneurs and investors will collaborate to make the company a success.

Law

Section 501(c)(6) of the Internal Revenue Code provides for exemption from federal income tax business leagues, chambers of commerce, real estate boards, boards of trade, or professional football leagues, 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 in part:

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. 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 is not a business league, a chamber of commerce, or a board of trade within the meaning of section 501(c)(6) and is not exempt from tax....

Revenue Ruling 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 IRC Section 501(c)(6). 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.

Revenue Ruling 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).

Revenue Ruling 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.

Application of law

Your primary activity is to facilitate investment transactions by inviting early stage companies to pitch their products or services to your members with a view to providing investment opportunities for them. In so doing you simultaneously perform particular services for each entrepreneur so served, and for your members.

You are similar to a stock or commodity exchange which according to Treas. Reg. Section 1.501(c)(6)-1 is not a business league, a chamber of commerce, or a board of trade within the meaning of section 501(c)(6) and therefore not exempt from tax. Like a stock or commodity exchange you were formed to bring together persons seeking to purchase an interest in a business with those with those willing to sell part of their interest in a business to facilitate investment transactions.

Like the association described in Treas. Reg. Section 1.501(c)(6)-1, in that you furnish information to prospective investors to enable them to make sound investments, you are also not a business league, since this activity does not improve business conditions in any particular line of business, but consists of the performance of particular services for both individual entrepreneurs and your members.

Like Produce Exchange Stock Clearing Association, your primary function is to facilitate investment transactions and do nothing to improve the standards or conditions of a particular trade or business, your only purpose being to afford your members with a convenience or economy in their investment activities.

As with the organization described in Revenue Ruling 59-391, the individuals comprising your membership share no common business interest other than a mutual desire to increase their individual investment returns.

Revenue Ruling 67-182 held that an organization that has limited membership and makes specialized information available to its members on a cooperative basis does not qualify for exemption under IRC Section 501(c)(6). Its activities are not aimed at improvement of business conditions in the industry as a whole, but constitute the performance of particular services for its members. In a similar way, your activities are not directed to the improvement of any line of business, but to perform particular services for your members.

Like the organization described in Revenue Ruling 76-366, you were formed to enable members and prospective investors to make sound investments by the mutual exchange of investment information. Your

activities are not directed to the improvement of business conditions of one or more lines of business but to performance of particular services for individual persons.

Conclusion

Based on the facts presented above, we conclude that you do not meet the requirements for tax exemption under Section 501(c)(6) because you are not a business league, a chamber of commerce or Board of Trade; do not improve business conditions in any particular line of business, but perform particular services for both individual entrepreneurs and your members; and your members share no common business interest other than a mutual desire to increase their individual investment returns.

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