

NOV 08 1994

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code and have determined that you do not qualify for tax exemption under that section. Our reasons for this conclusion and the facts on which it is based are explained below.

You were incorporated under the laws of [redacted] on [redacted], as a trade association of independent users known as [redacted]. Your stated purposes are to provide an autonomous educational network for communication among members, organizations, and others who manage or operate [redacted] products and services. This educational network will sponsor conferences, meetings and forums to share ideas and update members as to new and useful ways to use the service to maximize effectiveness within their respective companies; to publish newsletters and member directories; and to give feedback and suggestions for the enhancement of products and services used by the members of [redacted].

Your income is derived from conference fees, membership dues, and the sale of conference related items and advertising space in your newsletter. You have also received a \$ [redacted] contribution from [redacted].

Your expenses are attributable to your conference and newsletter.

You have three classes of membership: 1) Regular members are those companies or individuals who manage or operate [redacted] products and services; 2) Vendor members are those companies or individuals who sell products or services; and 3) Associate members are those other individuals or companies who have a legitimate need/interest in belonging (to the organization). Only Regular members are entitled to vote or hold office.

Section 501(c)(6) of the Internal Revenue Code provides for exemption of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues, which are not organized for profit and no part of the net earnings of which inures to the benefit of any private

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
		<i>Acting Mary Henry</i>	<i>EP/EST</i>				
Surname	[redacted]	[redacted]	[redacted]				
Date	9-21-94	9-22-94	11/8/94				

Section 1.501(c)(6) of the Income Tax Regulations 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. 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.

National Muffler Dealers' Association v. U.S. 440 U.S. (1979) describes a trade association which confined its membership to dealers franchised by a particular company and its activities to the business of that company. In this case, the court ruled that the organization was not entitled to exemption under section 501(c)(6) since its activities and membership does not serve the industry as a whole but only a segment of a line of business.

Revenue Ruling 67-77, published in Cumulative Bulletin 1967-1, on page 138, held that an organization composed of dealers in a certain make of automobile in a designated area organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by dealers members, the sale of that make of automobile was not entitled to exemption under section 501(c)(6). The rationale of this denial of exemption was that the organization was performing particular services for its members.

Revenue Ruling 68-182 published in Cumulative Bulletin 1968-1, on page 263, states that it is the position of the Internal Revenue Service that organizations promoting a single brand or product within a line of business do not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.

Revenue Ruling 74-116, published in Cumulative Bulletin 1974-1, on page 127, held that an organization whose membership is limited to organizations that own, rent or use a specific type of computer and whose activities are designed to keep members informed of current scientific and technical data of special interest to them as users of the computer is not exempt under section 501(c)(3). The same rationale may be used for 501(c)(6) organizations.

Revenue Ruling 83-164, found in Cumulative Bulletin 1983-2, page 95, held that an organization which directed its activities to users of computers made by one manufacturer was not directing its activities towards the improvement of business conditions in one or more lines of business within the meaning of section 1.501(c)(6)-1 of the Income Tax Regulations.

From the information you have submitted, your organization is similar in nature to the organizations described in Revenue Rulings 68-182, 74-116 and 83-164. As in Revenue Rulings 74-116 and 83-164, your purpose is to make better use of your members' investment in [redacted] equipment. Your various committees and user conference allows [redacted] and other vendors to interact with you members and to respond to requests to enhance or alter aspects of their hardware products. Your user group has had influence in the development on the [redacted] and [redacted] operating systems, which will ultimately benefit all users of the technology.

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As noted in Revenue Ruling 68-182, you are improving and promoting the use of a single, specific computer hardware system, not an entire line of business, as required by the regulations cited. The activities of your organization are furthering the business and economic interests of [REDACTED] and its users.

Therefore, we have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the Code. In accordance with this determination, you are required to file Federal income tax returns on Form 1120.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office, if you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax authorization with us.

If you don't appeal this determination within 30 days from the date of this letter, as explained in Publication 892, this letter will become our final determination on this matter.

Appeals submitted which do not contain all the documentation required by Publication 892 will be returned for completion.

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

Sincerely,

[REDACTED]
District Director