



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Release Number: **201045034**

Release Date: 11/12/10

Date: 8/16/10

UIL Code: 501.06-00

501.06-01

501.06-02

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

Dear

This is our final determination that you do not qualify for exemption from Federal income tax as an organization described in Internal Revenue Code section 501(c)(3). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

Since you do not qualify for exemption as an organization described in Code section 501(c)(3), donors may not deduct contributions to you under Code section 170. You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, 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, you should follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

In accordance with Code section 6104(c), we will notify the appropriate State officials of our determination by sending them a copy of this final letter and the proposed adverse letter. You should contact your State officials if you have any questions about how this determination may affect your State responsibilities and requirements.

Letter 4038 (CG) (11-2005)
Catalog Number 47632S

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at 1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Robert S. Choi
Director, Exempt Organizations
Rulings & Agreements

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter



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Since you do not qualify for exemption as an organization described in Code section 501(c)(3), donors may not deduct contributions to you under Code section 170. You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

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WASHINGTON, D.C. 20224

Date: 8/13/10

Contact Person:

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Contact Number:

FAX Number:

Employer Identification Number:

Legend:

B = Incorporator
M = Geographic region
Q = Applicant organization
W = State
X = Similar organization
Y = Similar organization
Z = Similar organization
t = date
w = website

UIL #'s:

501.06-00
501.06-01
501.06-02

Dear

We have considered your application for recognition of exemption from Federal income tax under Internal Revenue Code section 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under Code subsection 501(c)(6) or under any other subsection of 501(a). The basis for our conclusion is set forth below.

ISSUES

Whether you (Q) are organized and operated primarily for one or more exempt purposes and are tax-exempt within the meaning of section 501(c)(6).

Whether you (Q) are operated primarily for the benefit of private interests.

FACTS

Organization and Operation

You were organized by B and incorporated under the laws of W on t.

Your purposes as stated in Article 4 of your Certificate of Formation are: “[T]o provide quality early-stage investment opportunities for accredited investors in the M region, and to assist, educate and connect early stage growth companies with information and advisors for the purpose of raising money to enhance economic growth for the region.”

The detailed narrative description of your activities on the application for recognition of exemption states, in relevant part, that you propose to operate as an angel investment network to benefit the M. You state that your activities will benefit the citizens of M through the economic development that results from the success of businesses made possible by your members’ investments. You explain that angel investor networks are associations of members who qualify as accredited investors under federal security laws, and who seek to identify, screen, and assist early-stage businesses seeking investment capital. Currently, local entrepreneurs in the region encounter challenges when attempting to obtain equity money from local investors. You state that you will resolve this issue and fulfill a specific need by serving as a facilitator between members (accredited investors) and entrepreneur/owners of early-stage growth companies seeking investment capital in the M. Members will provide entrepreneurs with information and advisors for the purpose of raising money and assisting in the growth of these enterprises. You also describe membership meetings, presentation events and training events as educational activities. As a result, you will assist with the economic development in the M region. One hundred percent of the organization’s resources will be committed to this purpose. You indicate that fees have been set to cover the organization’s expenses without profit.

Your Membership Handbook provides additional information about your organization and operation. The handbook states that Q will be a W not-for-profit corporation whose members qualify as accredited investors under federal securities laws. Q is dedicated to providing quality early-stage investment opportunities for accredited M angel investors, and to assisting, educating and connecting early-stage growth companies in the M with information and advisors for the purpose of raising money and assisting in their growth. Q is intended to be an organization for investors, by investors. Q will act solely as a facilitator of the investment process, providing members with a method by which to meet, view, analyze and monitor investment opportunities.

The M has a pool of high net worth individuals with business experience who are looking for investment opportunities. Investments of most interest will be those that have a potential for high return and reflect the prevalent industries of the region.

Q’s mission is to satisfy this demand by accredited M angel investors for quality early-stage investment opportunities. A byproduct of this will be economic development for M, and W by helping early-stage businesses grow to profitability. Ideally, Q’s expenses will be kept low so that with a modest number of members and a small number of sponsors, the group can be self-sufficient.

At quarterly investment meetings, Q members will hear presentations from two to four businesses seeking investment capital. These companies will be chosen by Q members through a formal application and screening process according to adopted bylaws.

Without defining the terms used, your membership handbook states that success in the short term will be measured by the “quality of deal flow” and the number of companies funded. In the long run, ROI (Return on Investment) for members will be the defining measure for success.

Membership

Your membership requirements are listed on your exemption application in response to Part II, line 7. You state that members must certify that they qualify as accredited investors as defined under Rule 501 of the Securities Exchange Commission regulations. [The federal securities laws define the term "accredited investor" in Rule 501(a), which is codified in Title 17 of the Code of Federal Regulations as § 230.501 under Regulation D - Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933, as meaning any person or entity that comes within the categories specified in the regulations, or that the issuer or seller of securities reasonably believes comes within the specified categories, at the time of the sale of the securities to that person or entity.]

Members must pay the annual membership fee, complete an application for membership, and agree to the Q Rules of Membership and Conduct. All members will have one vote on organizational issues. Members must have relevant investment experience or be interested in learning from their peers.

The benefits of membership include: access to quality and screened investment opportunities; opportunity to co-invest with highly qualified angels; networking with other accredited local investors; occasional access to deals from similar organizations such as the Y and the Z.

You act solely as the facilitator of the investment process, providing members with a method by which they may meet, view, analyze and monitor investment opportunities.

Members are responsible for making individual and independent investment decisions, both as to suitability of an investment and as to the amount, if any, invested based on their own individual evaluation of the merits of the proposed investment.

You state that you do not provide members or others with investment advice and do not benefit from the success or failure of the investments of your members.

Marketing material, received with your application included a one page flyer that identifies Q as an "Investment Group" at the top of the page and states that Q is "[a] not-for-profit organization for investors, by investors" and "[a] facilitator of the investment process, providing members with a method by which to meet, view, analyze and monitor investment opportunities."

You also have a comprehensive website (w), identified as your primary website address on Part I, line 1e of your exemption application. Your June 20 , letter references your website as a source of "instructions on the angel investment process." The website lists the qualifications and benefits of membership, as well as services provided to participating investors and entrepreneurs. Your website (last visited April 8, 2010) contains links to other sites that include information on angel investor groups. The website also explains the activities of accredited angel investors.

LAW

Section 501(a) of the Internal Revenue Code of 1986 (the "Code") exempts from federal income taxation organizations described in section 501(c).

Section 501(c)(6) of the Internal Revenue Code of 1986 provides for exemption from federal Income Tax of 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 [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 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.

Revenue Ruling 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 section 501(c)(6) of the Code. 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.

Revenue Ruling 59-234, 1959-2 C.B. 149, held that a real-estate board whose primary purpose or activity is the operation of a multiple-listing system is considered to be rendering particular services for its members as a convenience and economy in the conduct of their respective businesses, rather than for the improvement of business within the real estate business generally, and is not exempt from Federal income tax as an organization described in section 501(c)(6) of the Code. The ruling further concluded that the operation of a real estate multiple listing service constitutes a business of a kind ordinarily carried on for profit.

Revenue Ruling 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 section 501(c)(6) of the Code.

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 section 501(c)(6) of the Code.

Revenue Ruling 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 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 section 501(c)(6) of the Code.

Revenue Ruling 74-228, 1974-1 C.B. 136, held that an organization of transoceanic passenger carriers that appointed travel agents to book passenger travel on the ships of its members does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code. By appointing travel agents to sell passages on the ships of its members under the circumstances described, the organization is providing its members with a service that assists them in the conduct of their businesses. This activity constitutes the performance of particular services for members and is not directed to the improvement of general business conditions within the meaning of the regulations.

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 section 501(c)(6) of the Code), 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 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". The organization engaged in activities of a type ordinarily carried on for profit, and proceeds from these activities subsidized the services it furnished its members. The court found that the organization was organized to do a regular business ordinarily carried on for profit, and since in the course of its business its net earnings inured to the benefit of individuals, it was not exempt from tax. The court observed that: "... it must be kept in mind that the term 'net earnings' may include more than the term net profits as shown by the books of the organization or than the difference between the gross receipts and disbursements in dollars. Profit may inure to the benefit of shareholders in other ways than in dividends." [Citations omitted.]

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, which was a type of business ordinarily carried on for profit, 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 section 501(c)(6) of the Code. The court held that: "[t]hus, where valuable services [of a type normally performed for profit] 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..."

In Evanston-North Shore Board of Realtors v. United States, 320 F.2d 375 (Ct. Cl. 1963), cert. den. 376 U.S. 931 (1964), the Claims Court found that an association's operation of a real estate multiple listing system cannot be regarded as directed to the improvement of business conditions in the real estate market within the meaning of the regulations, but rather constitutes the performance of a particular service for brokers participating in the service, and thus is not exempt under section 501(c)(6) of the Code. In concluding that the association's multiple listing systems operates most immediately to the benefit of the individual participating realtors, the court found several factors compelling. First and foremost is the fact that the fees charged for the listing service are in approximate proportion to the benefits received by each realtor. The court stated that: "[w]hen each member contributes in proportion to what he receives, it is a strong indication that the benefits received are not, as plaintiff contends they are, 'inherently group benefits.'" Second, the fact that participation in the multiple listing service is limited to members of the board provides some indication that the service is not designed to serve the real estate business generally. Finally, the court found a particularly compelling analogy between the operation of a multiple listing service and of a stock or commodity exchange in that: "Both are means of bringing buyers and sellers together to facilitate the sale of property. Both are supported by the brokers who earn commissions by arranging sales of property. Both provide a genuine benefit to persons desirous of buying and selling property and to the brokers who deal in such property."

In Harding Hospital, Inc. v. United States, 505 F.2d 1068 (6th Cir. 1974), the Sixth Circuit held that an organization seeking a ruling as to recognition of its tax exempt status has the burden of proving that it satisfies the requirements of the particular exemption statute.

APPLICATION OF THE LAW

Does not promote a common business interest

Section 501(c)(6) of the Code sets forth criteria for qualification for exempt status. In addition, a qualifying exempt organization must be described in section 1.501(c)(6)-1 of the regulations. You fail to meet the standards set forth in the Code, and you are not described in the regulations because you do not promote a common business interest. You are an association engaged in furnishing information to prospective “accredited investors” to enable them to make sound investments. You are not a business league.

Section 1.501(c)(6)-1 of the regulations clearly states that “[a]n 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.”

You basically bring buyers and sellers together in order to facilitate the sale of property. This activity is similar to that described in Revenue Ruling 58-224, which held that conducting an activity to bring buyers and sellers together does not constitute an exempt purpose under section 501(c)(6) of the Code.

You provide a facility or exchange for the promotion of investment decisions. This is similar to the situation in Produce Exchange Stock Clearing Association v. Helvering. In this case the court 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.

Your organization’s activities, which primarily benefit your members, are similar to the activities of the plaintiff in the case of Evanston-North Shore Board of Realtors v. United States, where the court drew an analogy between the operation of a real estate multiple listing service and the operation of a stock or commodity exchange in ruling that the organization did not promote a common business interest.

Similar to for-profit

Your activities, as described above, provide the members of your organization with an economy and convenience in the conduct of their individual investment activities, and therefore, constitute the performance of particular services for individual persons as distinguished from activities aimed at the improvement of business conditions in their trade as a whole. Your activities constitute a business of a kind ordinarily carried on for profit. You are similar to the organization described in Revenue Ruling 59-234, which held that the operation of a real estate multiple listing service constitutes a business of a kind ordinarily carried on for profit.

You also are similar to the appellant organization in Northwestern Municipal Association, Inc. v. United States, where the court ruled that the organization engaged in activities of a type ordinarily carried on for profit. Proceeds from these activities subsidized the services it furnished its members. The court observed that: “... it must be kept in mind that the term ‘net earnings’ may include more than the term net profits as

shown by the books of the organization or than the difference between the gross receipts and disbursements in dollars. Profit may inure to the benefit of shareholders in other ways than in dividends.”

Similarly, the appellant organization in General Contractors’ Association of Milwaukee v. United States operated a type of business ordinarily carried on for profit, supported by membership dues, as is the case with your organization. The court found that the benefits accruing to appellant organization’s members amounted to an inurement of net earnings, fatal to exemption under section 501(c)(6) of the Code.

Private benefit

Section 1.501(c)(6)-1 of the regulations describes a qualifying organization as one that directs its activities at the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Similar to the organization described in Revenue Ruling 56-84, the particular services you provide are restricted to your participating members, who represent a limited membership of accredited investors. Your activities will serve the interests of your members and are not aimed at the improvement of business conditions in the industry as a whole.

Like 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 section 501(c)(6). The organization’s activities are not aimed at improvement of business conditions in the industry as a whole, but constitute the performance of particular services for individual persons. In a similar way, your activities are not directed to the improvement of one or more lines of business, the general economic welfare of the community or the common business interests of an industry, but promote the private financial interests of your members.

You also are like the association in Revenue Ruling 70-80 because you direct your activities solely to the benefit of your limited membership rather than to the improvement of conditions in a business line, as well as the organization in Revenue Ruling 74-228 whose restricted membership consists of a small number of members (such as your accredited investors) within an industry. Because your organization 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 section 501(c)(6) of the Code.

In addition, by furnishing information to prospective investors to enable them to make sound investments, you are serving private interests and carry on activities directed to the support and promotion of the economic interests of your members, similar to the organization in Revenue Ruling 76-366.

Your activities may be described as a cooperative endeavor or enterprise undertaken to render services that your separate members might have otherwise been required to furnish, as with the case of the organization described in Northwestern Municipal Association, Inc. v. United States.

Other

Furthermore, you have not demonstrated that you have satisfied the requirements of the Code section under which you applied, as required in Harding Hospital Inc. v. United States, which also specifies that the burden of proof rests with the applicant organization.

APPLICANT'S POSITION

You state that you meet the requirements of section 501(c)(6) based on the following assertions: You are an association of persons having a common business interest. That interest is to facilitate entrepreneurs in the M area in obtaining capital from the investment community at large. You have no profit motive – your fees are set to cover expected operating expenses on a break-even basis. No profits will inure to the organization or its members. Your activities are completely directed towards improving the overall business climate of the M, benefiting all citizens through increased employment opportunities and tax revenues. You are organized along the lines of a chamber of commerce, assessing membership fees for the benefit of bringing like minded business people together to discuss and evaluate business opportunities with no activities to be performed on an individual business level for its members or entrepreneurs. Therefore you state that your organization is not similar to the organizations cited in Revenue Ruling. 56-84 and Revenue Ruling 74-228 as not entitled to recognition of tax-exemption under IRC section 501(c)(6).

When asked how you further an exempt purpose under 501(c)(6), you responded:

There are multiple benefits addressed under this section. First, there are benefits for the members of the organization. By participating in the angel network, members will be provided training and educational opportunities relating to investment trends, issues, and best practices. In addition, members are provided an opportunity to identify, screen, and assist early-stage companies seeking investment capital with a group of peers who can provide additional expertise and insights into the investments offered. Secondly, the entrepreneurs benefit from the opportunity to seek investment capital from the membership. Finally, the local region benefits from the economic development benefits resulting from the growth of these companies and the wealth created by the members' investments. You are an association of members who qualify as accredited investors under federal securities laws and who seek to take an active role in the organization to identify, screen, and assist early-stage businesses seeking investment capital. You do not promote any one line of business, but accept applications from any line of business. You seek to assist your members in identifying and vetting investment opportunities by reducing the risk and providing for shared access to due diligence processes. Much as the local chamber of commerce seeks to connect local businesses for the purposes of business-to-business exchanges, you seek to connect qualified investors with entrepreneurs who seek capital investments and business advice. The organization itself does not invest in any of the business opportunities. All membership fees and application fees will be used for administrative costs and costs associated with membership meetings, entrepreneur presentation events, and training and educational events.

When asked to clarify this phrase, “looking for companies with potential for high returns”, used in your application in connection with your activities, you provided the following rationale:

Members of a chamber of commerce join the organization to benefit their individual companies, a large part of which is to increase their profits by meeting potential customers who are also members of the organization. This comment should be taken in the context that the purpose of the organization is to enable businesses to succeed. In that respect, the term is intended to refer to the fact that the Q seeks to assist businesses that have the potential to make the most economic impact for the potential employees and citizens in the M region. While the individual members of a chamber might receive a private benefit from the membership, the organization itself (chamber) does not profit from this benefit. Q operates in the same way, so we are unclear why chambers would qualify as non-profit, but an angel network would not qualify.

SERVICE'S RESPONSE TO APPLICANT'S POSITION

You state that your activities “are completely directed towards improving the overall business climate of the M, benefiting all citizens through increased employment opportunities and tax revenues...the local region benefits from the economic development benefits resulting from the growth of these companies and the wealth created by the member’s investments,” and that you seek “to assist businesses that have the potential to make the most economic impact for the potential employees and citizens in the M region.” However, promotion of regional economic development as a public benefit is not your primary concern. On your website, you specifically state that any “economic development for the M and W is merely a “byproduct” of your mission to provide investment opportunities for accredited M investors. It is clear that your main focus is on providing investment opportunities and maximizing investment returns for high net worth investors. You state that “[i]nvestments of the most interest will be those that have a potential for high return and reflect the prevalent industries of the region.” You primarily select investment candidates based on potential return on investment and not on any community benefit. The reason local businesses and entrepreneurs are beneficiaries of your activities, is evident in your statement: “Most groups maintain a local or region geographic focus in order to maximize members’ ability to actively engage in the growth of their investments.” You further state: “To maximize the value added, most specialize in industries or technologies they understand, and invest only in companies within close geographic proximity.”

Although you assert no profit motive and emphasize that your fees are set to cover expected operating expenses on a break-even basis, providing services, even at cost, lacks the donative element necessary to distinguish the services from a regular trade or business ordinarily carried on for profit. And as set forth in section 1.501(c)(6)-1, even though a business produces only sufficient income to be self-sustaining, if it is of a kind ordinarily carried on for profit, as is the case with your enterprise, it is outside the scope of section 501(c)(6).

You emphasize the educational component of your activities by mentioning “membership meetings, entrepreneur presentation events, and training and educational events.” Yet by furnishing information to prospective investors in order to enable them to make sound investments, you are serving private interests and carrying on activities ultimately directed to the support and promotion of the economic interests of your members.

On your website, you state that the goal of wealthy angel investors is “to achieve higher returns than the typical public markets provide,” particularly given the risk involved. You state that seek returns of

at least ten times their initial investment within seven years. The main focus is on measures of profitability and growth.

Your primary purpose is to serve as an investment agent, linking potential investors with entrepreneurs and start-up or early-stage businesses seeking investment capital. You are a self-described “membership organization established to facilitate interactions between entrepreneurs seeking investment capital.” You acknowledge that you act “solely as a facilitator of the investment process, providing members with a method by which to meet, view, analyze and monitor investment opportunities.” Your mission statement “is to provide quality early-stage investment opportunities for accredited M investors.” You are in essence a venture capital organization, operated in your own words “for investors, by investors.”

CONCLUSION

Based on the facts presented above, we conclude that you do not meet the requirements for tax exemption under section 501(c)(6) of the Code because your primary activities are not those of an organization exempt under that section, and you are not a business league, a chamber of commerce, or a board of trade. Specifically, you perform particular services for individual persons, engage in a regular business of a kind ordinarily carried on for profit, and in furnishing information to prospective investors, do not further any common business interest but operate primarily for the benefit of private interests. Therefore, exemption under section 501(c)(6) of the Code is denied.

YOUR APPEAL RIGHTS

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter.

We will consider your statement and decide if that information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892, Exempt Organization Appeal Procedures for Unagreed Issues.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you during the appeal process. To be represented during the appeal process, you must file a proper power of attorney, Form 2848, Power of Attorney and Declaration of Representative, if you have not already done so. For more information about representation, see Publication 947, Practice Before the IRS and Power of Attorney. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter to you. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to the applicable address:

Mail to:

Deliver to:

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

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

Sincerely,

Rob Choi
Director, Exempt Organizations
Rulings & Agreements

Enclosure, Publication 892