

IRC 501(c)(6) Organizations

By John Francis Reilly, Carter C. Hull, and Barbara A. Braig Allen

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Overview

Purpose

This article discusses issues relating to the tax-exempt status under IRC 501(c)(6) of business leagues, chambers of commerce, boards of trade, and similar organizations. As of March 31, 2002, there were 71,032 organizations recognized as tax-exempt under IRC 501(c)(6).

The Appendices contain checksheets and instructions for Project Code #206, 501(c)(6) Business Organizations.

Rules relating to the political campaign and lobbying activities of IRC 501(c)(6) organizations are the subject of a separate article.

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The Statute, Regulations, and Analytical Framework of IRC 501(c)(6)

The Statute

IRC 501(c)(6) provides for exemption of 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.

Statutory History

The predecessor of IRC 501(c)(6) was enacted as part of the Tariff Act of 1913. Tariff Act of 1913, ch.16, § II (G)(a), 38 Stat. 72. There is no legislative comment on the statute. It is generally assumed, however that its passage was the result of a U.S. Chamber of Commerce request for an exemption for nonprofit "civic" and "commercial" organizations - a request that resulted in the enactment of what is now IRC 501(c)(4) (for nonprofit "civic" organizations) and IRC 501(c)(6) (for nonprofit "commercially-oriented" organizations.) See Hearings on Tariff Schedules of the Revenue Act of 1913 Before the Subcomm. of the Comm. of Finance, 63d Cong., 1st Sess. at 2001 (1913).

- The Revenue Act of 1928 amended the statute to specifically include real estate boards. Rev. Act of 1928, ch. 852, § 103(7), 48 Stat. 700.
- Most recently, in 1966, professional football leagues were added to the specifically described organizations. Act of Nov. 8, 1966, Pub. L. 89-800, § 6(a), 80 Stat. 1515. The Act, insofar as it related to professional football leagues, had both antitrust and tax provisions.
 - The antitrust provision was enacted to permit the combination of the National and American Football Leagues to go forward without fear of an antitrust challenge under either the Clayton Antitrust Act or the Federal Trade Commissions Act.
 - The IRC 501(c)(6) amendment was enacted to ensure that a professional football league's exemption would not be jeopardized because it administered a players' pension fund. H.R. Conf. Rept. No 2308, 89th Cong., 2d Sess. (1966), reprinted in 1966-2 C.B. 958, 963, 964.

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The Statute, Regulations, and Analytical Framework of IRC 501(c)(6), Continued

Regulations

Reg. 1.501(c)(6)-1 defines a business league as an association of persons having a common business interest, whose purpose is to promote the common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities are directed to the improvement of business conditions of one or more lines of business rather than 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.
- Chambers of commerce and boards of trade are organizations of the same general type as business leagues and the requirements for exemption of business leagues are the same for these organizations. Reg. 1.501(c)(6)-1.
 - However, chambers of commerce and boards of trade direct their efforts at promoting the common economic interests of all the commercial enterprises in a given trade or community. See Rev. Rul. 73-411, 1973-2 C.B. 180.

Meaning of “Persons” in the Regulations

The term “persons,” as used in Reg. 1.501(c)(6)-1, includes legal entities such as trusts and corporations.

- Remember, particularly when dealing with “particular services,” that Reg. 1.501(c)(6)-1 speaks in terms of services to “persons,” which refers not only to members, but also to individuals and entities who are not members.

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The Statute, Regulations, and Analytical Framework of IRC 501(c)(6), Continued

**Basic
Characteristics
of an IRC
501(c)(6)
Organization**

To meet the requirements of IRC 501(c)(6) and Reg. 1.501(c)(6)-1, an organization must possess the following characteristics:

1. It must be an association of persons having some common business interest and its purpose must be to promote this common business interest;
2. It must be a membership organization and have a meaningful extent of membership support;
3. It must not be organized for profit;
4. No part of its net earnings may inure to the benefit of any private shareholder or individual;
5. Its activities must be directed to the improvement of business conditions of one or more lines of business (discussed under “**The ‘Line of Business’ Requirement,**” page 21) as distinguished from the performance of particular services for individual persons;
6. Its primary activity does not consist of performing particular services for individual persons; and
7. Its purpose must not be to engage in a regular business of a kind ordinarily carried on for profit, even if the business is operated on a cooperative basis or produces only sufficient income to be self-sustaining.

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The Statute, Regulations, and Analytical Framework of IRC 501(c)(6), Continued

Analyzing the Characteristics

The characteristics listed above provide a useful structure for studying issues raised under IRC 501(c)(6). However, analysis of any IRC 501(c)(6) case should not be limited to one characteristic. The characteristics are interrelated and an organization that fails to meet one characteristic will probably fail at least one of the other characteristics.

- For example, an organization's application that raises the issue whether the organization meets the "line of business" requirement will probably raise the issue whether the organization is primarily engaged in providing particular services to individual persons.
 - Nevertheless, it is important to analyze IRC 501(c)(6) cases step-by-step because an organization must possess all the above characteristics to qualify under IRC 501(c)(6).
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Common Business Interest

Common Business Interest - Business Purpose

The starting point for analysis in determining whether there is a common business interest among members of an organization is whether the organization serves a business purpose for its members. Although the members may have a variety of interests, they must have a common interest of a business nature that the organization promotes.

Meaning of the Term "Business"

For purposes of IRC 501(c)(6), the term "business" is construed broadly. As the Tax Court has stated when interpreting the meaning of "business" under the predecessor of IRC 501(c)(6), "the term 'business' is very comprehensive and embraces everything about which a person can be employed." Associated Industries of Cleveland v. Commissioner, 7 T.C. 1449, 1465 (1946), acq. 1947-1 C.B. 1.

- Therefore, an association of nonprofit consumer cooperatives that promotes the cooperative method of doing business may qualify for exemption under IRC 501(c)(6). Rev. Rul. 67-264, 1967-2 C.B. 196.
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The Term "Business" Includes Professions

The term "business" is broad enough to encompass professions as well as mercantile and trading businesses. Rev. Rul. 70-641, 1970-2 C.B. 119. The following revenue rulings illustrate this principle:

1. Members of the medical profession formed a board to improve the quality of medical care available to the public and to establish and maintain high standards of excellence in a particular medical specialty. The board devises and administers written examinations to physicians in a particular medical specialty and issues certificates to successful candidates. Listings of the certified physicians are made available by the board to various medical groups who in turn make the listings available to the public. The organization promotes the common business interests of physicians and qualifies as a business league described in IRC 501(c)(6). Rev. Rul. 73-567, 1973-2 C.B. 178.
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Common Business Interest, Continued

**The Term
“Business”
Includes
Professions,
continued**

2. Members of a state medical association formed an organization to operate peer review boards. Its primary purposes of establishing and maintaining standards of quality, quantity, and reasonableness of costs of medical services serve to maintain the professional standards, prestige, and independence of the medical profession and thereby further the common business interest of the organization's members. Rev. Rul. 74-553, 1974-2 C.B. 168.
 3. An organization composed of persons studying for a degree in a particular profession may be an association of persons having a common business interest and qualify as a business league under IRC 501(c)(6). Even though the students are not engaged in a business, the purpose of the organization is to promote their common interests as future members of the profession. Rev. Rul. 77-112, 1977-1 C.B. 149.
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**Examples of
Organizations
Whose
Principal
Activities
Promote a
Common
Business
Interest**

1. An association of nonprofit consumer cooperatives that promotes the cooperative method of doing business may qualify as a business league. Rev. Rul. 67-264, 1967-2 C.B. 196.
 2. An organization composed of businessmen may qualify for exemption under IRC 501 (c)(6) where its activities are limited to holding luncheon meetings devoted to discussion, review, and consideration of the various problems in a particular industry, and are directed to the improvement of business conditions as a whole. Rev. Rul. 67-295, 1967-2 C.B. 197.
 3. However, an organization of business and professional persons in a community, providing luncheon and bar facilities for its members, but having no specific program directed to the improvement of business conditions, does not qualify for exemption under IRC 501(c)(6). Rev. Rul. 70-244, 1970-1 C.B. 132.
 4. Wives of members of an IRC 501(c)(6) business league who form an organization to help advance their husbands' profession have a common business interest for purposes of IRC 501(c)(6). Rev. Rul. 67-343, 1967-2 C.B. 198.
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Common Business Interest, Continued

Examples of Organizations Whose Principal Activities Promote a Common Business Interest, continued

5. An organization of business and professional women that promotes the acceptance of women in business and the professions qualifies as a business league. Rev. Rul. 76-400, 1976-2 C.B. 153. By sponsoring events devoted to the discussion and consideration of problems affecting women in business and the professions, the organization is promoting a common business interest. To the extent that the organization achieves its goal of improving opportunities for and attitudes toward women, it improves conditions in each of the industries or lines of business from which its members are drawn. See also G.C.M. 36546 (Jan. 12, 1976).
6. An organization formed to stimulate the development and free interchange of information pertaining to systems and programming of electronic data processing equipment may qualify for exempt status under IRC 501(c)(6). The membership of the particular organization at issue is composed of members who represent diversified businesses that own, rent, or lease digital computers produced by various manufacturers. The organization holds semi-annual conferences to discuss operational and technical problems. The activities of this organization provide a forum for the exchange of information that will improve the efficiency of the use of such computers, both by members and other interested users, and thus improve the overall efficiency of the business operations of each. Rev. Rul. 74-147, 1974-1 C.B. 136. Distinguished in Rev. Rul. 83-164, 1983-2 C.B. 95, discussed under **The "Line of Business" Requirement**, page 22.
7. An organization formed to promote the commercial fishing industry in a particular state through the publication and dissemination of a newspaper that contains news of events of interest to the fishermen and new techniques and advances in the commercial fishing industry qualifies for IRC 501(c)(6) status. Rev. Rul. 75-287, 1975-2 C.B. 211.
8. A trust established for the purpose of monitoring and coordinating business league activities of its member business leagues and collecting, administering, and disbursing funds to the member business leagues for business league purposes qualifies for exempt status under IRC 501(c)(6). The trust was created pursuant to collective bargaining agreements between a labor union and several business leagues that promote the home building industry in a particular geographic area. Rev. Rul. 82-138, 1982-2 C.B. 106.

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Common Business Interest, Continued

**Organizations
Whose
Principal
Activities Do
Not Promote a
Common
Business
Interest**

1. 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. Rev. Rul. 59-391, 1959-2 C.B. 151.
 - You must exercise some care here. The conclusion in Rev. Rul. 59-391 must be distinguished from the favorable conclusion in Rev. Rul. 70-641, 1970-2 C.B. 119. Rev. Rul. 70-641 concerns an organization composed of individuals from various professions concerned with public health and welfare that was organized to develop greater efficiency in the professions. Rev. Rul. 70-641 concludes: "The fact that the membership is composed of individuals from a variety of professions does not prevent the organization from qualifying under section 501(c)(6), because the members all have a common business interest in the field of public health and welfare."
2. The Tax Court held that the American Automobile Association, a national association of individual auto owners and affiliated auto clubs, did not qualify as a business league because the Association's principal activities consisted of securing benefits and performing particular services for members. American Automobile Association v. Commissioner, 19 T.C. 1146 (1953).
3. Hobbies are activities that are not conducted as businesses. Therefore, organizations that promote the common interests of hobbyists do not qualify under IRC 501(c)(6). In the leading case on this issue, American Kennel Club v. Hoey, 142 F.2d 920 (2nd Cir. 1945), the court noted that the Club had many members that were not breeders and concluded that "though the plaintiff is a league of clubs, it surely is not a league of business clubs" since its member clubs "are primarily interested in sport, not in business." Id. at 922.

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Common Business Interest, Continued

Associate Members: Do They Share a Common Business Interest?

The issue whether a common business interest is present may arise if an organization has more than one class of members. An IRC 501(c)(6) organization may have different membership classes. For example, many professional societies allow students to be associate members. Also, as noted above, the Service recognized, in Rev. Rul. 67-343, 1967-2 C.B. 198, that the wives of members of a business league have a common business interest in their husbands' business. Presumably, spouses could form a class of associate members of a business league.

- However, an organization may fail the requirement that members have a common business interest if associate members do not share a common business interest with the members who control the organization.
- The issue whether all members share a common business interest is factual and must be decided case-by-case. Nevertheless, analysis of each case must be systematic, so that arbitrary distinctions among cases are avoided.

How to Analyze the Associate Members' Situation

The **first step** in the analysis is to determine the common business interest of the controlling members. Controlling members are those who can vote and thus have a voice in determining the organization's policies.

The **next step** is to determine the extent associate members share that common business interest. This determination is not difficult if associate members are students preparing to enter the line of business, but the shared interest is not always so readily apparent.

- If it is not readily apparent that the associate members have an interest in common with the controlling members, the determination of why an associate member would join the organization must be made. This determination requires a comparison of the benefits received by each class of members.
- If associate members do not receive benefits in proportion to the contributions they make to the organization and there is some reason, such as fear on the part of associate members of upsetting business relationships with the persons who comprise the controlling membership, the requisite common business interest may not be present.

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Common Business Interest, Continued

Other Associate Member Situations Apart from the situation described above, consideration of whether members possess a common business interest requires an examination of the organization's activities to determine whether they promote a common business interest.

- For example, if amateurs are eligible for associate membership in an organization ostensibly promoting the business interest of professionals, the activities of the organization should be examined to determine if they primarily promote business interests. If the organization is in fact a hobby club for amateurs, it would not qualify under IRC 501(c)(6).
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Rules Regarding Membership and Support

In General

An IRC 501(c)(6) organization is a membership organization characteristically supported by dues. While such an organization may receive a substantial portion or even the primary part of its income from non-member sources, membership support, both in the form of dues and involvement in the organization's activities, must be at a meaningful level.

Historical Basis of IRC 501(c)(6)

As noted above, the 1913 enactment of the predecessor of IRC 501(c)(6) was assumed to be in response to a request from the U.S. Chamber of Commerce. In arguing the need for a specific exemption, the Chamber went to considerable length in describing the nature and functions of the type of organizations for which exemption was sought. The Chamber's statement clearly refers to dues-supported membership organizations.

- The statement and brief of the Chamber made explicit references to the "association" and "membership" character of the organizations at issue. The membership character of the organizations for which exemption was sought is also implicit in the repeated allusion to "chambers of commerce" as being representative of the type of organizations for which exemption was sought. On the matter of the income characteristics of these organizations, the Chamber emphasized that:

Exemption is asked only for commercial organizations which are not organized for profit. These organizations receive their income from dues paid by their members, a form of voluntary tax which businessmen pay that they may receive in common with all other members of their communities or of their industries the benefits of cooperative study of local development, of civic affairs, of industrial resources, and of local, national, and international trade. In fine, these organizations are cooperative agencies of good citizenship in industry and commerce. In so far as [these] commercial organizations succeed in their purposes, they increase the incomes, not of themselves, but of the individuals in their communities, irrespective of membership in the organizations. The taxation of the income of organizations wholly devoted to this public purpose would be a variety of double taxation, which elsewhere in H.R. 3321 is avoided. Hearings on Tariff Schedules of the Revenue Act of 1913 Before the Subcomm. of the Comm. on Finance, 63d Cong., 1st Sess. at 2001, 2003 (1913).

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Rules Regarding Membership and Support, Continued

Application of the Rules

G.C.M. 39723 (Apr. 8, 1988) concluded that a local association of insurance agents, exempt under IRC 501(c)(6), would lose its exempt status because its only significant source of income came from commissions earned by providing insurance services to local governmental units in the city in which it is organized.

G.C.M. 39723 contrasted the insurance agents' association with the insurance agents' association described in Rev. Rul 71-155, 1971-1 C.B. 152. While the association described in Rev. Rul 71-115 was funded by assessments against members, which G.C.M. 39723 characterized as "an indication that [its activity] was not 'a regular business ordinarily carried on for profit,'" the organization described in the G.C.M. had a revenue source that was typical of a profit-oriented business.

Therefore, for purposes of determining membership support:

- Any income derived from the performance of the organization's exempt functions or from substantially related activities should be treated as membership support,
- Contributions or gifts from the general public should be treated as membership support, and
- Unrelated income should be excluded in measuring the extent of membership support.

The Principal Purpose Test

As with organizations described in IRC 501(c)(5), a principal purpose test is used to determine whether a particular class of dues income will be subject to the unrelated business income tax provisions. See Rev. Proc. 97-12, 1997-1 C.B. 631. Following the provisions of Rev. Proc. 95-21, 1995-1 C.B. 686, if a category of members has been formed or availed of for the purpose of producing unrelated business income, then dues from that category of members will be taxed as unrelated business income. For purposes of IRC 501(c)(6), such income would not be considered as membership support.

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Rules Regarding Membership and Support, Continued

The Principal Purpose Test, continued

In the following cases, the organizations are receiving income from nonmember sources. In each of these cases, the activity producing the income is related to the organization's exempt purpose, and the income from the activity is considered to be membership support:

1. An association of insurance agents that receives commissions from handling insurance programs, where the commissions are impressed with a trust and deposited in a special fund to be administered for public purposes. Rev. Rul. 56-152, 1956-1 C.B. 56.
 2. An organization formed to promote a professional sport that receives income from the operation of championship tournaments open to the public, the sale of broadcasting rights, and the sale of publications. Rev. Rul. 58-502, 1958-2 C.B. 271.
 3. A veterinarians' association that collects fees from operating a rabies clinic open to the general public. Rev. Rul. 66-222, 1966-2 C.B. 223.
 4. A professional association that receives fees from nonmembers for a training program. Rev. Rul. 67-296, 1967-2 C.B. 212.
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Not Organized for Profit

Net earnings in the form of an excess of income over expenses

This requirement does not mean an IRC 501(c)(6) organization cannot have net earnings in the form of an excess of income over expenses. Instead, the requirement prohibits an IRC 501(c)(6) organization from issuing shares of stock that carry the right to dividends. Northwestern Jobbers Credit Bureau v. Commissioner, 37 F.2d 880 (8th Cir. 1930).

- A provision in an organization's charter providing for the distribution of assets to its members in the event of dissolution will not, in itself, preclude exemption. Crooks v. Kansas City Hay Dealers Association, 37 F.2d 83 (8th Cir. 1929).
 - However, the distribution of accumulated income to members may constitute inurement, which would disqualify an organization from exemption. The issue of inurement is discussed immediately below.
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Inurement

In General

IRC 501(c)(6) describes a business league as an organization in which "no part of the net earnings inures to the benefit of any private shareholder or individual."

- The inurement prohibition is contained in IRC 501(c)(3), IRC 501(c)(4), IRC 501(c)(6), IRC 501(c)(7), IRC 501(c)(9), IRC 501(c)(11), IRC 501(c)(13) and IRC 501(c)(19), and is applicable to IRC 501(c)(5) organizations under Reg. 1.501(c)(5)-1.
 - Because the determination whether inurement is present is factual and depends on the particular facts of each case, no precise definition has emerged from the court decisions. Nevertheless, factors considered material by courts can be useful in determining whether inurement exists in a particular case.
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Benefits to Members - General Rules

The inurement prohibition does not preclude members receiving some kind of benefits from the organization such as newsletters and similar informative material. Moreover, the profitability of the members' individual enterprises may be enhanced by the successful promotion of the common business interest.

- Inurement, rather, results from "an expenditure of organizational funds resulting in a benefit which is beyond the scope of the benefits which logically flow from the organization's performance of its exempt functions." G.C.M. 38559 (Nov. 8, 1980).
 - Therefore, any return of dues or contributions must be in proportion to dues paid or contributions made. Rev. Rul. 81-60, 1981-1 C.B. 335.
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Differential Benefits/ Refunds

The inurement prohibition does preclude furnishing benefits for some members at special rates, at the expense of other members. Nevertheless, an IRC 501(c)(6) organization may make cash distributions to its members without loss of exemption where such distributions represent no more than a reduction in dues or contributions previously paid to the organization to support its activities.

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Inurement, Continued

Differential Benefits/ Refunds, continued

- Cash rebates to members of an IRC 501(c)(6) organization, but not to nonmembers, of amounts paid or trade show rental income were held to constitute inurement in Michigan Mobile Home and Recreational Vehicle Institute v. Commissioner, 66 T.C. 770 (1976). The organization promoted an annual trade show at which exhibit space was rented to members and nonmembers at a fixed charge per square foot. A percentage of trade show earnings was set aside for rebates based on the amount of space rented. The rebates were paid only to members.
- On the other hand, in the situation discussed in Rev. Rul. 77-206, 1977-1 C.B. 149, cash rebates were made by an IRC 501(c)(6) organization to member and nonmember exhibitors who participated in the association's annual industry trade show. The rebates which represented a portion of an advance floor deposit paid by each exhibitor to ensure the show against financial loss, were made to all exhibitors on the same basis, did not exceed the amount of the deposit, and thus did not affect the association's exempt status.
- Prohibited distributions of earnings are not limited to dividends on stock. Examples of cases where exemption was denied because of inurement of earnings are:
 - a) An organization that used its funds to provide financial assistance and welfare benefits for the members (Rev. Rul. 67-251, 1967-2 C.B. 196);
 - b) An organization that paid its members for expenses they incurred in defending malpractice suits and paying judgments rendered in the suits (National Chiropractic Association, Inc. v. Birmingham, 96 F. Supp. 874 (N.D. Iowa 1951)); and
 - c) An association of wholesale grocers that owned a copyright on certain grocery labels and that distributed royalties to its members (Wholesale Grocers Exchange, Inc. v. Commissioner, No. 14,043 T. C. M. (1944)).

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Inurement, Continued

**Nonmember
Income and
Inurement**

As noted above, business leagues rely, at least in part, on membership dues as a source of revenue.

- To the extent that an organization receives income from nonmembers, the members are relieved of their burden of paying dues. In a case decided before the enactment of the unrelated business income tax (UBIT) provisions, National Automobile Dealers Association v. Commissioner, 2 T.C.M. 291 (1943), the Tax Court held that net earnings inured to the members through a reduction in dues made possible by earnings from a business ordinarily carried on for profit.
- However, since the UBIT provisions specifically apply to IRC 501(c)(6) organizations, it is clear that the receipt of business income by the business league does not in itself constitute inurement, even though it may indirectly benefit the members. If such income were distributed directly to the members, there would be inurement of income to the benefit of individuals and as a result, exemption would be lost.
- When an exempt business league engages in related income producing activities or services with nonmembers as well as members, it is not unusual to provide the goods or services to members at a reduced price. Such an arrangement does not necessarily result in inurement of income to members.
 1. If it can be shown that members' dues are used to support the activity that results in the goods or services being sold, and the difference in price reasonably reflects that support, the lower price to members is not considered inurement of income.
 2. However, as Michigan Mobile Home and Recreational Vehicle Institute v. Commissioner, 66 T.C. 770 (1976), demonstrates, where the difference in price is achieved through a system of rebates to members only, there may be inurement of income if the rebate reflects more than the value of member support for that activity through members' dues.

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Inurement, Continued

**Inapplicability
of IRC 4958**

The provisions of IRC 4958, which impose excise taxes on excess benefit transactions between disqualified persons and "applicable tax-exempt organizations" do not apply with respect to transactions involving an IRC 501(c)(6) organization because such an organization is not an "applicable tax-exempt organization" as defined in IRC 4958(e).

Improvement of Business Conditions

In General

The activities of a business league must be directed to the improvement of business conditions of one or more lines of business in order to qualify for exemption. Conversely, the activities of the organization cannot be primarily directed to the performance of particular services for individual persons.

Examples of Improving Business Conditions

Examples of activities that are directed to the improvement of business conditions and that do not constitute the performing of particular services for individual members include:

1. The presentation of information, trade statistics, and group opinions to government agencies and bureaus. Atlanta Master Printers Club v. Commissioner, 1 T.C.M. 107 (1942); American Refractories Institute v. Commissioner, 6 T.C.M. 1302 (1947).
2. The promotion of the common business interests of members through advocacy of the open shop principle. Associated Industries of Cleveland v. Commissioner, 7 T.C. 1449 (1946); acq., 1947-1 C.B. 1.
3. Attempting to influence legislation germane to the common business interests of an organization's members. Rev. Rul. 61-177, 1961-2 C.B. 117.
4. The promotion of the members' line of business by publishing statistics on business conditions in the industry based on data reported by members on specific forms, which members also use in the analysis of their own operations. Rev. Rul. 68-657, 1968-2 C.B. 218.
5. An organization, formed by a city's civic leaders, public officials, businessmen, and representatives of the community-at-large, to encourage conventions of national organizations in the city by making arrangements for facilities, services, and administrative support necessary to run a convention. Rev. Rul. 76-207, 1976-1 C.B. 158.
6. The maintenance of a nonprofit lawyer referral service aimed at improving the image and functioning of the legal profession. Rev. Rul. 80-287, 1980-2 C.B. 186.

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Improvement of Business Conditions, Continued

Examples of Improving Business Conditions, continued

7. The status of a professional sports league, exempt under IRC 501(c)(6), will not be adversely affected because its primary support is derived from the sale of television broadcasting rights to the tournaments it conducts. The sale of broadcast rights serves to increase public awareness of the sport. Rev. Rul. 58-502, 1958-2 C.B. 271, clarified. Rev. Rul. 80-294, 1980-2 C.B. 187
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Whether the Activities of a Business League Actually Lead to Real and Permanent Improvement of Business Conditions May Be Immaterial

Whether the activities of a business league actually lead to real and permanent improvement of business conditions is immaterial so long as reasonably prudent businessmen believe they will improve business conditions.

Associated Industries of Cleveland v. Commissioner, 7 T.C. 1449, 1466 (1947); acq. 1947-1 C.B. 1.

- An organization composed of businessmen is exempt where its activities were limited to holding periodic luncheon meetings devoted to discussions of various problems in a particular industry directed to the improvement of business conditions as a whole. Rev. Rul. 67-295, 1967-2 C.B. 197.
- However, an organization of business and professional persons in a community, providing luncheon and bar facilities for its members during business hours on working days of the year, but having no specific program directed to the improvement of business conditions, does not qualify under IRC 501(c)(6). Rev. Rul. 70-244, 1970-1 C.B. 132.

A simple rule: If you eat to meet, you may qualify as an IRC 501(c)(6) organization, but if you meet to eat, exemption may be denied.

The "Line of Business" Requirement

For purposes of IRC 501(c)(6), a line of business is a trade or occupation, entry into which is not restricted by a patent, trademark, or other means that allow private parties to restrict the right to engage in the business.

- An organization formed by members of a particular industry that contracts with various research organizations to develop new and improved uses for existing products of the industry is exempt under IRC 501(c)(6). No services are performed by the organization for any particular member, nor are any of the organization's patents and trademarks licensed to any member on an exclusive basis. Rev. Rul. 69-632, 1969-2 C.B. 120.
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Improvement of Business Conditions, Continued

The "Line of Business" Requirement, continued

- Conversely, an association of licensed dealers in a certain type of patented product does not qualify as a business league where the association owns the controlling interest in a corporation holding the basic patent, is engaged mainly in furthering the business interests of its member-dealers, and does not benefit people who manufacture competing products of the same type covered by the patent. Rev. Rul. 58-294, 1958-1 C.B. 244.
- Similarly, an association of dealers selling a particular make of automobile that engages in financing general advertising campaigns to promote the sale of that make is not exempt because it is performing particular services for its members rather than promoting a line of business; i.e., the automotive industry as a whole. Rev. Rul. 67-77, 1967-1 C.B. 138.
- Likewise, a manufacturers' organization that conducts research in projects of common interest to its industry and makes the results available only to its members rather than to the industry as a whole does not qualify for exemption under IRC 501(c)(6). Rev. Rul. 69-106, 1969-1 C.B. 153.
- An organization whose members represent diversified businesses that own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption under IRC 501(c)(6). Rev. Rul. 83-164, 1983-2 C.B. 95.
 - This organization is distinguishable from the one described in Rev. Rul. 74-147, 1974-1 C.B. 136. While members of both organizations have a common business interest concerning the use of computers, the organization in Rev. Rul. 74-147 directs its activities to users of computers made by diverse and competing manufacturers, while the organization described in Rev. Rul. 83-164 directs its activities to users of computers made by one manufacturer.
- Lastly, there is the situation of the shopping center merchants' association whose membership is restricted to and required of the tenants of a one-owner shopping center. Rev. Rul. 73-411, 1973-2 C.B. 180, concludes that the organization does not qualify as a business league or chamber of commerce under IRC 501(c)(6) because it does not serve the common business interests of "the kind of public business community contemplated by the statute." Instead, it "is a closed, nonpublic aggregation of commercial enterprises having none of the common characteristics of a community in the usual geographical or political sense."

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Improvement of Business Conditions, Continued

The Supreme Court Upholds the Line of Business Requirement in National Muffler Dealers

In National Muffler Dealers Association v. United States, 440 U.S. 472 (1979), the Supreme Court held that an association of a particular brand name of muffler dealers did not qualify for IRC 501(c)(6) status because it was not engaged in the improvement of business conditions of a line of business. This effectively settled the "line of business" issue.

- Previously, in Pepsi-Cola Bottlers' Association, Inc. v. United States, 369 F.2d 250 (7th Cir. 1966), the Seventh Circuit had concluded that that an association of the bottlers of a particular brand of soft drink was promoting a line of business. The government had contended that it was not promoting a line of business since the entire soft drink industry, rather than a particular brand, was the line of business. The Service subsequently reiterated its position in Rev. Rul. 68-182, 1968-1 C.B. 263.
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Cases Subsequent to National Muffler Dealers

The government has prevailed in other litigation concerning the scope of a line of business.

1. In National Prime Users Group, Inc. v. United States, 667 F. Supp. 250 (D.C. Md. 1987), the court held that an organization that served the needs of users of a specific brand of computer promoted only a segment of a line of business and was not exempt under IRC 501(c)(6).
 2. In Guide International Corporation v. United States, 948 F.2d 360 (7th Cir. 1991), the court concluded that an association of computer users did not qualify for exemption under IRC 501(c)(6) because it essentially benefited users of I.B.M. equipment.
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Activities That Constitute the Performance of Particular Services

In General

Performance of particular services by an organization for its members or others is not an IRC 501(c)(6) activity. While such activities, in and of themselves, do not preclude exemption, an organization whose primary activity is performing particular services is not exempt under IRC 501(c)(6).

Advertising Activities That Constitute the Performance of Particular Services

Advertising that carries the names of members generally constitutes the performance of particular services for members. Therefore, an association of merchants in a particular shopping center whose advertising material contained the names of the individual merchants does not qualify for exemption under IRC 501(c)(6). Rev. Rul. 64-315, 1964-2 C.B. 147.

- Similarly, an association created to attract tourists to a local area, but whose principal activity is the publication of a yearbook consisting largely of paid advertisements by its members is not an organization described in IRC 501(c)(6). Rev. Rul. 65-14, 1965-1 C.B. 236.
 - In another case, IRC 501(c)(6) exemption was denied to an association that published catalogues that listed only products manufactured by the members. Automotive Electric Association v. Commissioner, 168 F.2d 366 (6th Cir. 1948).
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Other Advertising Cases

On the other hand, an organization formed to promote the business of a particular industry and conducts a general advertising campaign to encourage the use of products and services of the industry as a whole qualifies for IRC 501(c)(6) exempt status notwithstanding that such advertising to a minor extent constitutes the performance of particular services for its members. Rev. Rul. 55-444, 1955-2, C.B. 258.

- Similarly, an association of apple growers that engaged in promoting the sale of apples grown in the state was held exempt under the predecessor of IRC 501(c)(6) since its purpose was to promote the industry as a whole and not members of the organization and to improve a line of business, even though its benefits were limited to a particular geographic area. Washington State Apples, Inc. v. Commissioner, 46 B.T.A. 64 (1942), acq., 1942-1 C.B. 17.
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Activities That Constitute the Performance of Particular Services, Continued

Other Advertising Cases, continued

- American Plywood Association v. United States, 267 F Supp. 830 (W.D. Wash. 1967), concerned an association of plywood manufacturers that owned a trademark it licensed for use only by its members. Advertising sponsored by the association did not contain the names of individual manufacturers, but did refer to the trademark. The court found that the trademark was analogous to the industry-wide advertising approved by the court in Washington State Apples (discussed above), and that the trademark was only an incidental part of the advertising, which extolled the virtues of plywood in general.
- The finding in American Plywood is distinguished in Rev. Rul. 70-80, 1970-1 C.B. 130, which holds that a nonprofit trade association of manufacturers, whose principal activity is the promotion of its members' products under the association's required trademark, did not qualify under IRC 501(c)(6).
- Likewise, a shopping center merchants' association whose membership is restricted to, and required of, the tenants of a one-owner shopping center and their common lessor, and whose activities include promotional affairs and advertising to publicize the center, does not qualify as a business league or chamber of commerce under IRC 501(c)(6) because these activities are directed to promoting the general business interest of its members only, rather than of the industry as a whole. Rev. Rul. 73-411, 1973-2 C.B. 180.
- Advertising precedents also are found in situations relating to the UBIT.
 - For example, Rev. Rul. 82-139, 1982-2 C.B. 108, concludes that the publication of ordinary commercial advertising for products and services used by the legal profession in a bar association's journal is unrelated trade or business under IRC 513 because it is commercial in nature and does not contribute importantly to the association's exempt purposes.
 - On the other hand, Rev. Rul. 82-139 also concludes that the publication of legal notices, however, promotes the common interests of the legal profession and thus is not unrelated trade or business under IRC 513.

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Activities That Constitute the Performance of Particular Services, Continued

**Other
Examples of
Performance of
Particular
Services**

In the following situations IRC 501(c)(6) exemption was denied because the organization's primary activities were found to constitute the performance of particular services for individual persons:

1. Commodity and stock exchanges, which serve their members as a convenience and economy in buying and selling. Reg. 1.501(c)(6)-1.
2. An organization formed to operate a laundry and dry cleaning plant for its members, who were in the laundry business. A-1 Cleaners and Dyers Co. v. Commissioner, 14 B.T.A. 1314 (1929).
3. An organization that operated a cold storage warehouse for its members on a cooperative basis. Growers Cold Storage Warehouse Co. v. Commissioner, 17 B.T.A. 1279 (1929).
4. An organization of investment brokers formed to investigate causes of bond defaults and to perform other services members would have been required to perform in making bond investments. Northwestern Municipal Association, Inc. v. United States, 99 F.2d 460 (8th Cir. 1938).
5. An organization formed by building and loan associations to appraise properties that are offered by borrowers and to appraise plans for building contracts entered into by members. Central Appraisal Bureau v. Commissioner, 46 B.T.A. 1218 (1942).
6. An organization of florists to promote the exchange of orders by wire among its members. Florists Telegraph Delivery Association, Inc. v. Commissioner, 47 B.T.A. 1044 (1942).
7. An organization formed to estimate quantities of building materials required in members' projects. General Contractors' Association of Milwaukee v. United States, 202 F.2d 633 (7th Cir. 1953).
8. An organization that furnishes particular information and specialized individual service to its members through publications and other means to effect economies in the operation of their individual businesses. Rev. Rul. 56-65, 1956-1 C.B. 199, clarified by Rev. Rul. 65-164, 1965-1 C.B. 238 and Rev. Rul. 72-211, 1972-1 C.B. 150.

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Activities That Constitute the Performance of Particular Services, Continued

**Other
Examples of
Performance of
Particular
Services,
continued**

9. An organization formed to sell advertising in its members' publications. Rev. Rul. 56-84, 1956-1 C.B. 201.
10. An organization that promotes the publication of its members' writings. Rev. Rul. 57-453, 1957-2 C.B. 310.
11. A real estate board whose primary purpose and activity is the operation of a multiple listing service for its members. Rev. Rul. 59-234, 1959-2 C.B. 149; Evanston-North Shore Board of Realtors v. United States, 320 F.2d 375 (Ct. Cl. 1963).
12. A nurses' registry controlled and financed by participating nurses where its activities consist of assigning nurses to jobs. Rev. Rul. 61-170, 1961-2 C.B. 112.
13. An organization whose primary activity is operating a parking stamp plan whereby patrons of its members are afforded parking privileges while shopping at members' stores. Rev. Rul. 64-108, 1964-1 (Part 1) C.B. 189.
14. An organization that conducts a trading stamp plan whereby patrons of members receive trading stamps redeemable for merchandise at local stores. Rev. Rul. 65-244, 1965-2 C.B. 167.
15. Organizations formed to facilitate the purchase of supplies and equipment and to supply management services for their members. Rev. Rul. 66-338, 1966-2 C. B. 226; Indiana Retail Hardware Association, Inc. v. United States, 366 F.2d 998 (Ct. Cl. 1966); Apartment Operators Association v. Commissioner, 136 F.2d 435 (9th Cir. 1943); Uniform Printing & Supply Co. v. Commissioner, 33 F.2d 445 (7th Cir. 1939).
16. An organization established to insure the discharge of legal obligations of its members to pay certain taxes. Rev. Rul. 66-354, 1966-2 C.B. 207.
17. An organization formed to give financial assistance to people entering a particular profession. Rev. Rul. 67-176, 1967-1 C.B. 140.
18. An organization whose only activity is providing a reference library of "electric logs," maps, and information services used solely by its members in their oil exploration business. Rev. Rul. 67-182, 1967-1 C.B. 141.

Continued on next page

Activities That Constitute the Performance of Particular Services, Continued

**Other
Examples of
Performance of
Particular
Services,
continued**

19. A traffic bureau that arranges shipments and billings for a fee. Rev. Rul. 68-264, 1968-1 C.B. 264.
20. A bureau that operates a credit information service for its members. Rev. Rul. 68-265, 1968-1 C.B. 265; United States v. Oklahoma City Retailers Association, 331 F.2d 328 (10th Cir. 1964);
21. A manufacturers' organization that conducts research and makes the results available only to its members rather than to the whole industry. Rev. Rul. 69-106, 1969-1 C.B. 153; Glass Container Industry Research Corp. v. United States, 70-1 U.S.T.C. 9214 (W.D. Pa. 1970).
22. An organization of commercial banks that provides and promotes a credit card plan for member banks. Rev. Rul. 70-591, 1970-2 C. B. 118.
23. An organization that operates a telephone-answering service for member doctors. Rev. Rul. 71-175, 1971-1 C.B. 153.
24. An organization whose principal activity is to provide its members with group workmen's compensation insurance. Rev. Rul. 74-81, 1974-1 C.B. 135.
25. An organization formed by carriers engaged in regular transoceanic passenger service, whose primary activity consists of appointing travel agents to book passenger travel on its members' ships. Rev. Rul. 74-228, 1974-1 C.B. 136.
26. An organization whose principal activity is to provide a telephone answering service to distribute calls for towing service on a rotational basis to its members who are tow truck owners and operators. Rev. Rul. 74-308, 1974-2 C.B. 168.
27. An organization formed to maintain the good will and reputation of credit unions in a particular state by making interest-free loans to credit unions in financial difficulty. Rev. Rul. 76-38, 1976-1 C.B. 157.
28. An organization that publishes and distributes to its members' customers and potential customers a directory containing members' names and addresses. Rev. Rul. 76-409, 1976-2 C.B. 154.

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Activities That Constitute the Performance of Particular Services, Continued

**Examples of
Activities That
Do Not
Constitute the
Performance of
Particular
Services**

In the following cases an activity carried on by a business league was found to benefit the common business interest even though there was also an incidental benefit to individual members that, standing alone, might appear to be a particular service to individuals:

1. An insurance rating bureau operated by casualty insurers under the authority of a state insurance commissioner to establish uniform rates and compile information for the industry. Oregon Casualty Association v. Commissioner, 37 B.T.A. 340 (1938), acq., 1938-1 C.B. 22.
2. An organization formed by fire insurance companies to conduct fire patrols and salvage operations. Minneapolis Board of Fire Underwriters v. Commissioner, No. 10,464-A (B.T.A.M. 1938).
3. An organization of tuna fishermen that negotiated with packers for standard prices to be paid to all tuna fishermen, both members and nonmembers. American Fishermen's Tuna Boat Association v. Rogan, 51 F. Supp. 933 (S.D. Calif. 1943).
4. An organization formed to regulate the sale of a specific agricultural commodity to assure equal treatment of producers, warehousemen, and buyers, where it does not provide facilities for buying or selling commodities. Rev. Rul. 55-715, 1955-2 C.B. 263.
5. An organization of employers in an industry that negotiates terms of a uniform labor contract for the entire industry, mediates and settles labor disputes affecting the industry, and interprets contracts. Rev. Rul. 65-164, 1965-1 C.B. 238.
6. An organization that operates a bid registry open to all individuals or firms in a particular trade or industry to encourage fair bidding practices within the industry. Rev. Rul. 66-223, 1966-2 C.B. 224.
7. An association of insurance companies formed to investigate criminal aspects of claims against its members. Rev. Rul. 66-260, 1966-2 C.B. 225.

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Activities That Constitute the Performance of Particular Services,
Continued

**Examples of
Activities That
Do Not
Constitute the
Performance of
Particular
Services,
continued**

8. An organization of growers and processors of agricultural products that subsidizes a lawsuit instituted by one of its members to prevent air pollution in the area served by the organization. Rev. Rul. 67-175, 1967-1 C.B. 139.
9. An organization was formed in response to regulations issued by a state department of banking to promote proper control of consumer lending. It maintained a file of all open loans made by its member small loan companies and furnished this information to its members in order to prevent a borrower from obtaining simultaneous small loans in excess of a specified sum. Rev. Rul. 67-394, 1967-2 C.B. 201.
10. An organization of advertising agencies that verified the advertising claims of publications selling advertising space and made reports available to members of the advertising industry generally. Rev. Rul. 69-387, 1969-2 C.B. 124.
11. An organization formed by members of a particular industry that contracts with various research organizations to develop new and improved uses for existing products of the industry is not exempt under IRC 501(c)(3) but may be exempt under IRC 501(c)(6). Rev. Rul. 69-632, 1969-2 C.B. 120.
12. An organization of financial institutions that offers rewards for information leading to the arrest and conviction of individuals committing crimes against its members. Rev. Rul. 69-634, 1969-2 C.B. 124.
13. An organization formed by manufacturers of a particular product to conduct a program of testing and certifying the product to establish acceptable standards within the industry as a whole. Rev. Rul. 70-187, 1970-1 C.B. 131.
14. An association of insurance companies that makes insurance available to persons in high-risk categories who cannot otherwise obtain coverage by providing for the equitable distribution of such policies among its members. Rev. Rul. 71-155, 1971-1 C.B. 152.

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Activities That Constitute the Performance of Particular Services,
Continued

**Examples of
Activities That
Do Not
Constitute the
Performance of
Particular
Services,
continued**

15. However, see the discussion below under **Business Activities** of organizations that are not exempt because they are themselves An organization formed to promote the interests of its members and others in the building and construction industry by providing a plan room and news bulletin available to the entire industry. Rev. Rul. 72-211, 1972-1 C.B. 150; Rev. Rul. 56-65 1956-1 C.B. 199, clarified.
 16. An organization created under state statute to pay claims against insolvent fire and casualty insurance companies, where membership in the organization is required of all insurance companies writing fire and casualty insurance in the state and its income is derived from membership assessments and claims against the assets of the insolvent companies. Rev. Rul. 73-452, 1973-2 C.B. 183.
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Business Activities

General Rules Reg. 1.501(c)(6)-1 provides that an organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit is not a business league. Whether an organization's purpose is primarily to engage in business is thus a question of fact. In the past, the courts have held that the following organizations were **not** exempt under IRC 501(c)(6):

1. An organization testing the safety of electrical products for commercial enterprises. Underwriters' Laboratories, Inc. v. Commissioner, 135 F.2d 371 (7th Cir. 1943).
 - Note, however, that an organization formed by manufacturers of a particular product to conduct a program of testing and certification of the product may be exempt under IRC 501(c)(6). The program was to establish acceptable standards within the industry as a whole in order to prevent trade abuses. Rev. Rul. 70-187, 1970-1 C.B. 131.
2. An organization selling credit information and collection services. Credit Bureau of Greater New York, Inc. v. Commissioner, 162 F.2d 7 (2nd Cir. 1947).
3. An employment agency. American Association of Engineers Employment, Inc. v. Commissioner, 11 T.C.M. 207 (1952), aff'd, 204 F.2d 19 (7th Cir. 1943).
4. An automobile association providing commercial towing for its members. American Automobile Association v. Commissioner, 19 T.C. 1146 (1946)
5. A board of trade that provides members and nonmembers with laboratory services is not exempt because its principal activity and only source of income is from a business of a kind ordinarily carried on for profit. Rev. Rul. 78-70, 1978-1 C.B. 159.

An organization engaging in business activities is exempt under IRC 501(c)(6) only when it can be determined that such activities do not constitute its primary activity. The following organizations were held to be exempt:

1. An organization of insurance agents that collected commissions on municipal insurance placed through its members. King County Association of Insurance Agents v. Commissioner, 37 B.T.A. 288 (1938), acq. 1938-1 C.B. 17.

Continued on next page

Business Activities, Continued

General Rules, continued

2. A chamber of commerce that operated a credit bureau as one of its fifteen departments. Milwaukee Association of Commerce v. United States, 72 F. Supp. 310 (E.D. Wisc. 1947).
 3. A chamber of commerce that develops an industrial park to attract new industry to the community. Rev. Rul. 70-81, 1970-1 C.B. 131; Rev. Rul. 81-138, 1981-1 C.B. 358.
 4. A sports promotion organization that sells television rights to tournaments it conducts as its primary source of support. Rev. Rul. 80-294, 1980-2 C.B. 187.
 - Note: Rev. Rul. 80-294 clarifies Rev. Rul. 58-502, 1958-2 C.B. 271, to remove the implication that the sale of broadcasting rights to an organization's tournaments furthers IRC 501(c)(6) purposes only when the amount of the income derived therefrom is insignificant.
-

Interplay Between Business Activities and Particular Services

When business activities also benefit an organization's members by providing them with goods or services, such activities may also constitute the performance of particular services for individual persons and thus preclude exemption if such activities are the organization's primary activities. Thus, many of the cases and rulings cited above mention both factors in denying exemption.

Basis for Determining Whether an Organization Is Engaged in a Business Ordinarily Carried on for Profit

In determining whether an organization is engaging in activities of a kind ordinarily carried on for profit, it is the nature of the business activities that brings them within the category of business activities prohibited by IRC 501(c)(6). Rev. Rul. 81-174, 1981-1 C.B. 335; Rev. Rul. 81-175, 1981, 1981-1 C.B. 337.

Continued on next page

Business Activities, Continued

**Meaning of
“Business” in
Determining
Whether an
Organization Is
Engaged in a
Business
Ordinarily
Carried on for
Profit**

"Business," for this purpose, has essentially the same meaning as "trade or business" under IRC 513. G.C.M. 37100 (Apr. 21, 1977); G.C.M. 39723 (Apr. 8, 1988).

- In analyzing the trade or business requirement of IRC 513(c) and Reg. 1.513-1(b), the courts have relied on the plain meaning of the language and adopted a "profit motive" standard. United States v. American Bar Endowment, 106 S.Ct. 2426 (1986); Carolinas Farm & Equipment Dealers Association v. United States, 699 F.2d 167 (4th Cir. 1983); Louisiana Credit Union League v. United States, 693 F.2d 525 (5th Cir. 1982); Professional Insurance Agents of Michigan v. Commissioner, 726 F2d 1097 (6th Cir. 1984).

**“Business
Ordinarily
Carried on for
Profit” - The
Insurance
Cases**

Rev. Rul. 81-174, 1981-1 C.B. 335, concludes that a nonprofit association of insurance companies created by an act of a state legislature to provide medical malpractice insurance to health care providers is not exempt as a business league under IRC 501(c)(6) because the provision of medical malpractice insurance is a business of a kind ordinarily carried on for profit.

Similarly, Rev. Rul. 81-175, 1981-1 C.B. 337, concludes that a nonprofit association of insurance companies created by an act of a state legislature to accept high-risk customers who would ordinarily be turned down by member companies is not exempt as a business league under IRC 501(c)(6). In this situation, the organization does not issue policies but it does act as a reinsurer by compensating insurance companies that experienced a loss on policies issued to high-risk drivers. Nevertheless, Rev. Rul. 81-175 reaches an adverse conclusion because reinsurance is also a business ordinarily carried on by commercial insurance companies.

- In both cases, the revenue rulings note that the organization had not earned a profit and was organized and operated so that it would not earn a profit. However, as both revenue rulings state, "it is the nature of the activity that determines whether it is a business ordinarily carried on for profit."

Continued on next page

Business Activities, Continued

“Business Ordinarily Carried on for Profit” - The Insurance Cases, continued

- A critical factor in these cases is whether the applicant organization has assumed a risk with respect to insurance policies.
 - The organization described in Rev. Rul. 71-155, 1971-1 C.B. 152, is also state-mandated and composed of all automobile liability insurers in that state. The organization processes applications from high-risk drivers, issues binders to drivers eligible under state law, and assigns the policies to a member company that performed the actual insurance functions. Unlike the organizations described in Rev. Ruls. 81-174 and 81-175, the organization described in Rev. Rul. 71-155 does not assume the risk on a policy and therefore was not itself engaged in the insurance business. Therefore, it qualifies for exempt status under IRC 501(c)(6).
-

Variations on the Insurance Cases

Rev. Rul. 73-452, 1973-2 C.B. 183, discusses an organization created under state statute to pay claims against insolvent fire and casualty insurance companies. Membership in the organization is required of all insurance companies writing fire and casualty insurance in the state and the income is derived from membership assessments and claims against the assets of the insolvent companies.

- The revenue ruling holds that the organization qualifies for IRC 501(c)(6) exempt status because it "is serving a quasi-public function imposed by law which is directed at relieving a common cause of hardship and distress of broad public concern in the field of insurance protection."
- An equivalent result is reached in Rev. Rul. 76-410, 1976-2 C.B. 155. Rev. Rul. 76-410 describes an organization composed of insurance companies operating within a state. It was created under the state's no-fault insurance statute to provide personal injury protection benefits for residents of the state who sustain injury in situations where the injuring party is unknown or has very limited or no liability coverage.

In holding that the organization has exempt status under IRC 501(c)(6), Rev. Rul. 76-410 states that its activities "promote the common business interest of its members by fulfilling an obligation that the state has imposed upon the insurance industry as a prerequisite for doing business within the state and by enhancing the image of the industry."

Continued on next page

Business Activities, Continued

**Selling Marts/
Qualified Trade
Show Activities**

IRC 513(d)(3), added to the Code by § 1305 of the Tax Reform Act of 1976, P.L. 94-455, 90 Stat. 1525, provides that qualified convention and trade show activities conducted by an organization described in IRC 501(c)(5) or 501(c)(6) are not unrelated trade or business if certain requirements are met.

- A qualified convention or trade show activity includes any activity designed to attract persons to an industry show for the purpose of displaying industry products, to stimulate interest in and demand for industry products or services, or to educate persons engaged in the industry in the development of new products and services or new matters affecting the industry when the event is sponsored by a qualifying organization.
- A qualifying organization is one described in IRC 501(c)(5) or (c)(6) that regularly conducts as one of its substantial exempt purposes a show that stimulates interest in, and demand for, the products and services of the particular industry.
- If a convention or trade show activity is not unrelated trade or business by reason of IRC 513(d), it is also an exempt activity of the particular IRC 501(c)(5) or (c)(6) organization.

Note, however, Rev. Rul. 58-224, 1958-1 C.B. 242, which describes an organization whose sole activity is to conduct an annual trade show only for the purpose of bringing buyers and sellers together. The show is not held in conjunction with a convention or annual meeting. The organization is not exempt under IRC 501(c)(6). IRC 513(d) does not affect the holding in Rev. Rul. 58-224.

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Classification Issues

**IRC 501(c)(6)
or under some
other
subparagraph
of IRC 501(c)?**

Because of the broad language of some of the subparagraphs of IRC 501(c), there are situations where a certain amount of overlap occurs, creating a question whether an organization should be classified under IRC 501(c)(6) or under some other subparagraph of IRC 501(c).

- One illustration of this overlap involves whether an organization is more properly described in IRC 501(c)(5) or (c)(6). This issue is discussed in the article dealing with IRC 501(c)(5) organizations.
- A professional society may also qualify for exemption under IRC 501(c)(3) if its purpose is to advance the profession by engaging in exclusively educational or scientific activities.

However an organization may not be classified under IRC 501(c)(3) if it has substantial noncharitable and noneducational purposes and activities, regardless of the number or importance of truly charitable or educational purposes it may otherwise have.

Continued on next page

Classification Issues, Continued

**IRC 501(c)(6)
or under some
other
subparagraph?,
continued**

Examples:

- A city medical society exempt under IRC 501(c)(6) that primarily directs its activities to the promotion of the common business purposes of its members may not be reclassified as an educational or charitable organization under IRC 501(c)(3). Rev. Rul. 71-504, 1971-2 C. B. 231.

Activities include:

- a) Holding monthly meetings where technical papers demonstrating clinical care and new procedures are presented by the members and discussed;
- b) Maintaining an extensive library of medical books and periodicals used by the members;
- c) Supporting medical education at local medical schools by providing lectures and counseling services;
- d) Supporting local public health programs;
- e) Publishing a monthly journal containing educational material, notices and other matters of interest to individual doctors;
- f) Providing a patient referral service for members;
- g) Maintaining a grievance committee to hear complaints and settle disputes between member doctors;
- h) Establishing a legislative committee to communicate the association's attitudes to state and local government officials on issues germane to its members' professional interests such as professional incorporation legislation, medicare legislation, and compulsory health care legislation;
- i) Holding meetings concerned with matters affecting the promotion and protection of the practice of medicine; and
- j) Conducting a public relations program to enhance and improve the public image of the medical profession.

The activities set forth in paragraphs (f) through (j) constitute a substantial portion of the society's total activities. Rev. Rul. 71-504 concludes that while some of the society's activities are charitable or educational, the activities set forth in paragraphs (f) through (j) are directed primarily at the promotion of the medical profession and thus further the common business purpose of its members. Therefore, since the society has substantial noncharitable and noneducational purposes and activities, it cannot be reclassified as an IRC 501(c)(3) organization.

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Classification Issues, Continued

**C 501(c)(6) or
under some
other
subparagraph?,
continued**

- A city bar association exempt under IRC 501(c)(6) that primarily directs its activities to the promotion and protection of the practice of law may not be reclassified as an educational or charitable organization under IRC 501(c)(3). Rev. Rul. 71-505, 1971-2 C.B. 232.

Activities include:

- a) Sponsoring semi-annual law institutes given by members of the association in conjunction with the state's two leading law schools;
- b) Publishing legal articles of some depth;
- c) Providing judges for moot court programs at local law schools;
- d) Arranging for law students to assist appointed counsel in the criminal defense of indigents;
- e) Assisting in the production of a number of nonprofit radio and television programs directed toward educating laymen on legal matters;
- f) Maintaining a speakers' panel to instruct high school students on the function of law and the legal system;
- g) Extending legal assistance to indigents;
- h) Creating and affording leadership and financial assistance to a legal aid society;
- i) Seeking improvements in the administration of justice by researching, investigating, drafting, and recommending new ways to expedite legal procedures;
- j) Establishing and promulgating minimum fee schedules;
- k) Preparing papers on the economics of running an efficient law office;
- l) Proposing and advocating that lawyers in the armed forces be paid on a basis comparable to the bases for doctors and dentists;
- m) Preparing and publishing studies of incorporation as a tax-saving device for lawyers;
- n) Directing other programs toward making the practice of law more profitable in the state;
- o) Establishing and enforcing standards of conduct for members;
- p) Sponsoring for its members an annual Christmas party, golf tournaments, membership dinners opera nights, group overseas travel plans, and a Junior Bar Association with a full schedule of periodic dinners, cocktail parties, and dances.

The activities listed in paragraphs (j) through (p) constitute a substantial part of the association's activities. Rev. Rul. 71-505 concludes that since these activities are primarily directed at the promotion and protection of the legal profession and thus further the common business purpose of its members, they reflect noncharitable and noneducational purposes and thus preclude the association from reclassification as an IRC 501(c)(3) organization.

Continued on next page

Classification Issues, Continued

**IRC 501(c)(6)
or under some
other
subparagraph?,
continued**

On the other hand, an engineering society formed to engage in scientific research in the areas of heating, ventilating, and air conditioning for the benefit of the general public qualifies for exemption under IRC 501(c)(3). Rev. Ruls. 71-504 and 71-505, *distinguished*. Rev. Rul. 71-506, 1971-2 C.B. 233.

- a) The society of heating and air conditioning engineers does not engage in any public relations activities.
- b) It never prepared a code of ethics, or policed the profession in any way, or sought to improve the condition of its members.
- c) The society has no purposes, committees, or activities primarily aimed at developing good will or fellowship among its members, or fostering a mutuality of interests.
- d) It has no social or recreational activities, and no facilities such as a restaurant, lounge, or club house for members.
- e) It does not engage in any activity designed to influence legislation.

In contrast to the organizations described in Revenue Rulings 71-504 and 71-505, this society engages exclusively in scientific and educational activities.
