

no protest rec'd
11/26/90

[REDACTED]

[REDACTED]

[REDACTED]

OCT 09 1990

Employer Identification Number: [REDACTED]
Key District: [REDACTED]

Dear Taxpayer:

We have considered your application for exemption from federal income tax under section 501(c)(6) of the Internal Revenue Code.

You were incorporated [REDACTED], as a non-membership organization. Your operation and control is vested in a board of directors and officers. Your purpose is to educate and improve the efficiency of attorneys and their staffs in relation to bankruptcy practice before the United States Bankruptcy Court for the [REDACTED] District of [REDACTED]. You are carrying on the activities of a predecessor unincorporated association, which has regularly provided seminars since [REDACTED]. In [REDACTED], your first full year of operation, you offered [REDACTED] seminars, which accounted for [REDACTED] percent of your time and [REDACTED] percent of your total support.

In [REDACTED] you also established a computerized tracking service of cases before the bankruptcy court. This activity accounted for [REDACTED] percent of your [REDACTED] income and you assert, only [REDACTED] percent of your time during your first full tax year.

The computerized tracking service is made available to those who pay users fees. Small users are charged \$[REDACTED] per year and large users pay \$[REDACTED] per year. It is anticipated that in the future the fees will be graduated according to the amount of use. It is not a service incident to membership.

The purpose of the computer system is to provide fast, accurate information to attorneys, credit bureaus, and other interested parties. The system is established with the Clerk's Office and maintained in the U.S. Bankruptcy Court. However, your system is separate from the Court's system which has been maintained since [REDACTED]. The Court's system is maintained and updated by the Clerk's office. The prior day's data from the

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Court's system will be downloaded into your system every morning between 9-10 a.m. At all other times your system is available for the users.

In conformance with your Articles, you do not operate as a membership organization. Neither the persons attending the seminars nor those subscribing to the computer services are regarded as members. They have no control over your operation. Their only contact with you is through the purchase of services or attendance at classes.

Sections 501(a) and 501(c)(6) of the Code provides exemption for business 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 provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not engage in a regular business of a kind ordinarily carried on for profit. It is of the same general class as a chamber of commerce, etc. 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.

Briefs and Statements, Senate Committee on Finance, 63d Cong. 1st Sess. 2001 (1913) contains statements of the Chamber of Commerce concerning the composition and source of income of chambers of commerce and business leagues relevant to the passage of the predecessor to section 501(c)(6) of the Code. The Chamber emphasized that exemption was asked only for membership organizations, organized not-for-profit and supported by the dues of the membership to advance their industries or local development.

Trade Association Activities, U.S. Dept. of Commerce, 1923, described trade associations as membership organizations supported by dues.

In United States v. Cambridge Loan and Building Co., 278 U.S. 55 (1928) the Court construed the meaning of the term "domestic building and loan association." It held that, when Congress exempted such associations from income tax, it was addressing existing societies that commonly were known as such.

Retailers Credit Ass'n. of Alameda County v. Commissioner, 90 F2d 47 (9th Cir. 1930), holds that the operation of a credit

information service is the operation of a business ordinarily carried on for profit. If such an activity is the primary activity of the organization, it destroys exemption.

The Service has long held that organizations described in section 501(c)(6) of the Code must be membership organizations. When construing the terms "business league," "board of trade," and "chamber of commerce," we must give them the meaning that they had when Congress exempted such organizations. See United States v. Cambridge Loan and Building Co., *supra*. The Chamber of Commerce testifying before the Senate Committee on Finance unequivocally described such organizations as membership organizations supported by the dues of the membership. See Brief and Statements, Senate Committee on Finance, *supra*. So too, Trade Association Activities, *supra*, described the organizations listed in the predecessor of section 501(c)(6) as membership organizations.

You are not a membership organization. Your Articles of Incorporation clearly state that you are not, and your operations demonstrate that you are not. Accordingly, we conclude that you are not described in section 501(c)(6) of the Code, and, thus, not exempt from federal income tax under section 501(a).

In addition to the above, we note that a substantial portion of your support and activities involve the operation of your computerized tracking service. Similar to Retailers Credit Ass'n. of Alameda County v. Commissioner, *supra*, you are providing information services to individuals in the operation of their businesses. Not only are you providing individuals with services, you are engaged in an activity normally carried on for profit. Such an activity, if it is primary, may prevent exemption under section 501(c)(6) of the Code. In your situation, the information service accounts for nearly fifty percent of your income, but you assert it accounts for only twenty-five percent of your time. Under these circumstances, because the information service is not your primary activity, it will not prevent your exemption. However, because it is a business activity unrelated to your exempt purpose, it may be subject to tax on unrelated business income, as your Key District Office may determine, if you are ever recognized as an exempt organization.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a

right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director in Atlanta. Thereafter, any questions about your federal income tax status should be addressed to that office.

Sincerely yours,

(signed) [Redacted]

[Redacted]

Chief, Exempt Organizations
Rulings Branch 1

[Redacted]

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Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
	[Redacted]	[Redacted]					
Surname	[Redacted]	[Redacted]					
Date	10/4/98	10/4/98					