



FEB 12 1991

Dear Sir or Madam:

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

The information submitted indicates that you were incorporated on [redacted] [redacted], under the laws of the State of [redacted]. Your purposes are to promote the common business interests of the independent insurance agents through fostering better service to the insurance public, encouraging understanding and cooperation between agents and insurance companies, promoting good public relations, opposing unfair competition, and providing insurance agents with continuing education. Your application indicates that you have promoted goodwill with the public through fire and seat-belt safety campaigns, defensive driving classes, and contributions to charitable organizations. You have also held continuing education courses for agents in the area. In addition, you conduct regular meetings for your members.

You have an insurance committee whose purpose is to obtain coverage for the various divisions of public businesses. The writer of the policy, who is a member of your organization, retains [redacted] of the brokerage commission on the writing of a policy. Of the [redacted] given to your organization, [redacted] is returned to the members of the insurance committee in payment for any expenses incurred and as compensation for their services. This leaves a balance of [redacted] of the brokerage commissions for you.

Your financial data indicates that most of your income is from brokerage commissions. In the year ending [redacted] [redacted]; you received \$[redacted] from dues and \$[redacted] in commissions; of which you paid out \$[redacted], or [redacted], to your member agents. In [redacted] you again had \$[redacted] in dues, collected \$[redacted] in brokerage commissions, and paid your agents \$[redacted] for their expenses and compensation. The [redacted] that your agents keep in brokerage commissions is not reflected in your financial data.

e	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
120		[redacted]					

In addition to your primary expense of paying agents their [redacted]%, you also have expenses for banquets, contributions, and advertising, in that order.

Section 501(c)(6) of the Internal Revenue Code provides exemption for:

"Business leagues, chambers of commerce, ...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, for an organization to be exempt, its activities must 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..."

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 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..."

In King County Association of Insurance Agents v. Commissioner, 17 B.T.A. 271, 1925, acq., 1938-1 C.B. 17, an organization of insurance agents collected commissions on municipal insurance placed through its members. The members gave up private business to the organization in order to decrease the dues. The court held this organization exempt under section 501(c)(6).

In the case of the Independent Insurance Agents of Northern Nevada, Inc. v. U.S., 79-2 USTC ¶9601, 44 AFTR 2d 79-5980 D. Nev. 1976, one of the purposes of the organization was to advise and counsel, and accept and service insurance for governmental agencies in order to remove such business from political favoritism. The recommendations for insurance requirements were offered on the open market for bidding. The committee preparing the recommendations served without compensation, and was precluded from receiving any brokerage commissions. The court held this organization exempt under section 501(c)(6).

Revenue Ruling 56-152, 1956-1 C.B. 56, refers to an organization of insurance agents assisting a board of education in its insurance needs, where brokerage commissions were placed in a special fund for educational purposes. The work was done on a voluntary basis with no remuneration. The selection of the insurance company and authorized agent was left to the board of education. No agents received any brokerage commission in this organization.

On the basis of the information submitted, we have concluded that you do not qualify as an organization promoting the common business interest of one or more lines of business and not engaging in a regular business. You are engaged in a business carried on for-profit and for the financial benefit of your in-

[REDACTED]

dividual members. Although you do perform some public service to promote the independent insurance agents to the public, and you do have some educational activities for your members, your primary purpose is to obtain brokerage commissions for your individual members. Your members earn 90% of the commissions and you only keep 10% for your activities.

In response to our letter of June 26, 1990, stating that you did not appear to qualify under section 501(c)(6) of the Code, you referenced the above cases to show how you qualify. However, unlike the members of the King County Association of Insurance Agents v. Commissioner, supra, your members are not turning their brokerage fees over to the organization to reduce the dues. Your members are earning brokerage fees through your organization, and keeping all the commissions except for 10%.

Since most of your income is from brokerage commissions, it would appear to be your primary purpose. However, contrary to your letter, you are not like the organization in the case of Independent Insurance Agent of Northern Nevada, Inc. v. U. S., supra. While the purpose of this organization was to advise and counsel, and also accept and service insurance to remove such business from political favoritism, the recommendations for insurance requirements were offered on the open market for bidding. Also, this committee served without compensation, and was precluded from receiving any brokerage commissions. The members of your organization are receiving 90% of the brokerage commission, either as compensation for their work or for writing the policies. You do not place the offering on the open market for bids, and are not operating in the same manner as this organization.

You also reference Revenue Ruling 56-152, supra, in response to our letter of June 26, 1990. In this case too, the individual agents did not receive brokerage commissions or payment for services. The entire brokerage commissions went to a special fund for educational purposes. In your organization, only 10% of the commissions are received by you, with the rest going to your members in payment of services and as brokerage commissions. In Revenue Ruling 56-152, supra, the selection of the insurance company and authorized agent was left to the board. In your case, one of your ten member agents writes the insurance.

Accordingly, it is held that you are not entitled to exemption from Federal income tax under section 501(c)(6) of the Code.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 501 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

[REDACTED]

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

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

Sincerely,

[REDACTED]  
District Director

Enclosures:  
Publication 292  
Form 6018