

An organization composed of dealers in a certain make of automobile in a designated area is organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by dealer members, the sale of that make of automobile. Held, the organization is performing particular services for its members and is not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code of 1954.

I.T. 4053, C.B. 1951-2, 53, superseded.

The purpose of this Revenue Ruling is to update and restate the position set forth in I.T. 4053, C.B. 1951-2, 53, under the current statute and regulations. This ruling relates to whether an organization which is organized and operated for the primary purpose of financing advertising campaigns to promote the sale of a particular make of automobile is entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code of 1954.

Membership in the organization is restricted to dealers who hold franchises for the sale of a certain make of automobile in a designated area. It was formed to unite the dealers in that area and to finance general advertising campaigns which promote the sale of automobiles, parts, and services. Its only income consists of contributions from the dealer-members. The size of these contributions is determined by the number of automobiles purchased from the manufacturer by each member.

Section 501(c)(6) of the Code exempts from Federal income tax business leagues, chambers of commerce, real estate boards, or boards of trade, 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 describes a business league as 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.

The organization described herein, instead of engaging in activities for the improvement of business conditions in the automotive industry as a whole, is performing services for its members by advertising the make of automobile sold by its members. Therefore, it is not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Code.

This Revenue Ruling restates under current law the position set forth in I.T. 4053. Therefore, I.T. 4053 is hereby superseded.