

Business leagues providing workmen's compensation insurance.

A nonprofit organization formed to promote the business welfare and interests of persons engaged in the contracting trade and related industries and whose principal activity is to provide its members with group workmen's compensation insurance is not entitled to exemption under section 501(c)(6) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization was formed to promote, protect, and foster the business welfare and interests of persons engaged in the business of building, contracting and related activities. Membership is limited to any individual, corporation, company, or firm engaged in the contracting trade and related industries, of good credit and moral standing, doing business in a particular State, and with an estimated annual premium for workmen's compensation insurance of not less than a stipulated amount per year.

The organization maintains a safety committee which seeks to reduce the incidence and severity of accidents by means of educational campaigns, inspections, and loss analysis. Also, the organization provides its members with group workmen's compensation insurance, which is underwritten by a private insurance company. The operation of the insurance service is the organization's principal activity.

The organization's receipts consist of membership dues and amounts refunded by the insurance company which represent excess premium charges paid by the organization's members and which the organization refunds to its members in proportion to the amounts each member has overpaid. Expenditures are made for distribution of refunds, the promotion of safety investigations, and miscellaneous administrative costs.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit, 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 defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common interest. Its activities should be directed towards the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons.

Rev. Rul. 68-264, 1968-1 C.B. 264, involving the operation of a traffic bureau, and Rev. Rul. 68-265, 1968-1 C.B. 265, involving

the operation of a credit information service, hold that an activity that serves as a convenience or economy to members in the operation of their businesses is a particular service of the type proscribed.

By providing group workmen's compensation insurance for its members, the organization relieves the members of obtaining this insurance on an individual basis, resulting in a convenience in the conduct of their businesses. Therefore, the organization is rendering particular services for individual persons as distinguished from the improvement of business conditions in the contracting and related industries generally.

Accordingly, the organization does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.