

[REDACTED]

CERTIFIED MAIL

[REDACTED]

FEB - 4 1993

Dear Applicant:

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 discloses that you were formed as an unincorporated association [REDACTED]. Your By-Laws state your purposes:

- A. To establish a professional organization to promote Bed and Breakfast Inns in [REDACTED] County for the purpose of association gain, rather than individual gain.
- B. To provide opportunities for innkeepers to:
 1. Benefit from each other's expertise.
 2. Promote member properties through joint special events; e.g. advertising, referral and seasonal tours.
- C. To monitor legislative action impacting our industry.
- D. To provide guidelines and encourage high standards of hospitality, service and quality for guests.
- E. To engage in sound and ethical business practices.
- F. To communicate with other organizations that subscribe to similar goals.
- g. To support the membership through collective action with national, state and local regulator agencies.

Your activities include:

1. Phone Chain--
 - a. Purpose of this activity is to refer prospective guests to members of the association who have availability for the requested dates.
 - b. This activity started with the inception of the association. It has and will continue as long as the association is in existence.
 - c. Each member in the association does this activity weekly on a rotating schedule throughout the year. The calls are referred from general inquiries or from the association's 800 telephone number which is transferred each week from inn to inn.

2. Brochures--

- a. Purpose of this activity is to advertise the member inns of the association in a document which describes each property by word and picture.
- b. Brochures were compiled in [REDACTED]. These are always available and updated as required.
- c. These brochures are mailed upon request and are available at each member's inn. They are distributed in local visitor's centers and by the [REDACTED].

3. Joint Advertising--

- a. Purpose of this activity is to advertise the member inns of the association in various publications and magazines.
- b. This advertising has continued since the inception of the association.
- c. Advertising has been published in [REDACTED], [REDACTED], and the [REDACTED]. Above are representative but not inclusive.

4. Quarterly Meeting--

- a. Purpose of this activity is to conduct necessary business and for an exchange of ideas and helpful information such as: how to deal with problem guests, cancellation policies, purchasing ideas, 500 # services, and informing each other of area attractions and activities.
- b. These meetings are held in February, May, August, and November of each year.
- c. The meetings are conducted by the officers of the association at member inns.

5. Video Advertising--

- a. Purpose of this activity is to advertise the member inns in a television format. Each inn was video taped with appropriate visual and audio description.
- b. One video was produced in [REDACTED].
- c. Currently the video is on display at the [REDACTED].

6. Organized Events--

- a. Purpose is to provide an activity to encourage guests to come to [REDACTED] County and stay at member inns.
- b. A square dance was organized and held in [REDACTED].
- c. This square dance was held in [REDACTED] Facility and was hosted by the member inns.

[REDACTED]

You are a membership organization open to all bed and breakfast innkeepers located in [REDACTED] County, [REDACTED] who may or may not meet all of [REDACTED] membership criteria.

Income to your organization is derived from membership fees.

Expenses shown are allocated to telephone (800 number), postage/stationary, advertising-brochure, advertising-video, bank charges, and miscellaneous.

Section 501(c)(6) of the Internal Revenue Code provides exemption from Federal income tax to organizations such as business leagues, chambers of commerce, real-estate boards and other organizations that are 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 defines a 501(c)(6) organization as follows:

1. 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.
2. A business league is an organization of the same general class as a chamber of commerce or board of trade. The activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of services for individuals persons.
3. 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 and produces only sufficient income to be self-sustaining is not a business league.

National Muffler Dealers' Association v. U.S. 440 U.S. 472(1979) discusses an organization that applied for tax exempt status under section 501(c)(6). In this case, the organization formed a trade association of franchised muffler dealers. The organization limited its membership to Midas Muffler dealers and its activities to Midas Muffler businesses.

Revenue Ruling 56-65, published in Cumulative Bulletin 1956-1 on page 199, denied exemption to an organization whose principal activity consists of furnishing particular information and specialized services to its individual members engaged in a particular industry, to affect economies in the operation of their individual businesses. An organization performing particular services for individual persons is not entitled to exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1986 as a business league.

[REDACTED]

Income Tax Regulations 1.501(c)(6)-1 states that a business league is an organization of the same general class as a chamber of commerce or board of trade, and that a tax exempt business league's activities should be directed to the improvement of business conditions in one or more lines of business.

Revenue Ruling 58-294 published in Cumulative Bulletin 1958-1 on page 244 holds that an organization organized and operated for the purpose of promoting uniform business advertising and fair trade practices of a specified patented product was not a business league within the meaning of section 501(c)(6) since its primary purpose was to further the business interests of the dealers of a single product rather than the industry as a whole.

Revenue Ruling 67-77 published in Cumulative Bulletin 1967-1 on page 138 holds that an organization composed of dealers in a certain make of automobile in a designated area, organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by dealer-members, the sale of that automobile, is performing particular services for its members instead of promoting the common interests of the automotive industry as a whole was not entitled to exemption as a business league.


Your operation of an 800 number (telephone chain) to refer prospective guests to members of the association who have availability for the requested dates is in actuality a reservation service for the exclusive benefit of your members. It is not an activity aimed at the improvement of general business conditions.

Your organization also advertises by brochure and video. The brochures contain a written description of each member inn and an artist's drawing of each. The brochures are mailed upon request and are available at each inn, and several visitors centers. The brochure contains information about gift certificates that can be used at [REDACTED] member inns. The video is in television format and may be viewed at the [REDACTED].

The publication of advertising matter containing listings of the names of individual members constitutes advertising for the individuals so advertised and is thus considered the performance of particular services for such individuals, rather than an activity aimed at the improvement of general business conditions.

Your activities are directed solely to promoting the business and economic interests of your membership, not an industry.

We therefore hold that you lack the essential characteristics of a chamber of commerce, board of trade, and/or business league. Accordingly, you do not meet the test of the statute and do not qualify for exemption under Section 501(c)(6) of the Code.


You are required to file Federal income tax returns on Form 1120.


If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this, you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax information authorization with us.

If you do not appeal this determination within 30 days from the date of this letter, as explained in Publication 892, this letter will become our final determination in this matter.

Appeals submitted which do not contain all the documentation required by Publication 892 will be returned for completion.

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

Sincerely yours,


District Director

Enclosure: Publication 892