

Internal Revenue Service

Department of the Treasury

District Director

Date: NOV 16 1990

Person to Contact:

Telephone Number:

Employer ID Number:

File Folder Number:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

IDENTIFIED MAIL RETURN RECEIPT REQUESTED

Dear Applicants:

We have considered your application for recognition of exemption from Federal income taxation under section 501(c)(6) of the Internal Revenue Code of 1954.

The information submitted indicates you were formed as an association [REDACTED]. The purpose and objectives of your organization are:

1. To represent the [REDACTED] product users by monitoring and recommending enhancements, etc., to the following [REDACTED] based products:

[REDACTED]

2. To provide for problem tracking and resolution with conveyance to the [REDACTED] for implementation.
3. To encourage and provide for the interchange of ideas and support between users of [REDACTED] products.
4. To provide to [REDACTED] regulatory requirements information for enhancements to ensure compliance.
5. To provide "User Friendly" assistance to [REDACTED] in future product development.
6. To encourage communication and cooperation between all user groups within the [REDACTED] family of products.

In operation, you hold regular conventions to inform members of current and future products and to keep them updated on applications. Your meetings are held at the annual convention. Your sources of support are from membership dues and conference registrations. Your expenses are conference and board meeting related.

Your membership requirements are as follows:

There shall be two classes of memberships: principal and associate.

Principal members shall be those financial institutions having purchased and installed ~~_____~~ products or signed a letter of intent to purchase ~~_____~~ products. The facility must be an active, paid-up bank finance client of ~~_____~~ or intend to be on the maintenance plan, and have paid a membership fee of ~~_____~~ to ~~_____~~.

Associated members shall be those institutions that are users of ~~_____~~ products through the services of a licensed ~~_____~~ user and have paid a membership fee of ~~_____~~ to ~~_____~~. Associate members shall receive all privileges granted to principal members with the exception of the right to vote and the right to serve on the board of directors.

Section 501(a) of the Code provides, in relevant part, that an organization described in subsection (c) shall be exempt from taxation.

Section 501(c)(6) of the Code provides for the exemption from Federal income taxation 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 provides, in relevant part, 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. The activities of the organization must be directed to the improvement of business conditions or the advancement of business as distinguished from the performance of particular services for individual persons.

In National Muffler Dealers Association, Inc. v. United States, 140 U.S. 471, 59 L. Ed. 265 (1971), the United States Supreme Court affirmed a lower court decision that an organization of muffler dealers, franchised by Mopac International Corporation, which had conferred its membership to Mopac dealers and its activities as to the muffler business, was not a "business league" within the meaning of section 501(c)(6) of the Code. The Court validated the "line of business" test set forth in section 1.501(c)(6)-1 of the regulations and recognized the body or authority interpreting that test to mean that an organization's

activities must be directed to the improvement of business conditions in an "entire industry" or "all components of an industry within a geographic area." 440 U.S. at 482-483, 59 L. Ed. 2d at 528.

In National Prime Users Group, Inc. v. United States, 607 F. Supp. 280 (D. Md. 1987), 80 AFTR 2d 97-5064 (D. Md. 1987), citing National Muffler Dealers Association, Inc. v. United States, supra, the court held that National Prime User's Group (NPUG), an organization comprised of persons which owned, leased, or operated computer equipment manufactured by Prime Computer, Inc. (Prime), was not a "business league" within the meaning of section 501(c)(6) of the Code. The court emphasized that (i) the name of the organization clearly indicated that the organization was intended to promote Prime's products, (ii) the operation of the organization only served Prime users, (iii) the purpose of the organization as set forth in its corporate documents was to provide an organized method of communication among Prime users, (iv) there was no evidence that membership in the organization was open to non-Prime users, (v) the majority of presentations made at the organization's conferences were made by Prime representatives, (vi) Prime was the only computer company involved in the conferences, (vii) all of the topics addressed in the organization's newsletters and conferences were directed to the use of Prime computers, and (viii) Prime used the organization as an important marketing vehicle. The court concluded that NPUG "endeavored to serve solely the interests of Prime." 607 F. Supp. at 286. The court found that the organization's activities provided a competitive advantage to Prime. The court held that there was a consistent focus of its activities on Prime products and users.

Revenue Ruling 74-147, 1974-1 C.B. 136, holds that an organization comprised of members who represent diversified businesses that own, rent, or lease digital computers produced by various manufacturers, the purpose of which is to improve the efficiency of its members' use of computers, qualified for exemption under section 501(c)(6) of the Code. The common business interest shared by the members of the organization is the common business problems concerning the use of digital computers.

Revenue Ruling 83-164, 1983-2 C.B. 91, distinguishing Revenue Ruling 74-147, supra, holds that an organization whose members represent diversified businesses that own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption under section 501(c)(6) of the Code. The activities of the organization were limited to users of a particular computer and thus found to be benefitting a segment of a line of business rather than improving the business conditions of one or more lines of business.


As in the National Prime Users case, your activities, your purpose, as set forth in your organizational document, are to provide an organized method of communication among Computer Associates - Florida Applications User Group members and to focus on Computer Associates and, with few exceptions, only its users. These methods of operation all tend to show that you fit within the prohibited areas described in Revenue Ruling 64-164, 1964-1 CB 242, and the National Muller Dealer's Association case. The fact that these cases dealt with hardware while yours deals with software is not a material distinction. Effectively, you are still largely aiding one manufacturer. While other companies may receive some small amount of your attention, one company receives the overwhelming amount of your publication space, etc., and your attention is geared to satisfying the needs of consumers of that one company's software.

Accordingly, we conclude that you are not described within section 501(c)(6) of the Code. Therefore, you do not qualify for exemption from Federal income taxation under that subsection or any other subsection of 501(a). Thus, you are required to file Federal income tax returns.

You have the right to protest this ruling if you believe that 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 the 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 Practice Procedures.

If you do not protest this ruling within 30 days, this ruling will become final.

Sincerely,


District Director