

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

OCT 02 1961

Gentlemen:

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 under the State of [REDACTED] Non-profit Corporation Act on [REDACTED]. Your stated purpose is to provide an organization through which franchised businessmen, by means of joint, mutual and co-operative efforts, can improve their business operations and relationship with their franchisor.

Membership in your organization is limited to licensees of one or more individual [REDACTED], other than licensees who may have the right within a particular geographical area to license other parties to operate [REDACTED].

You state that you will provide a forum for the independent franchisees to exchange information, ideas, discuss common problems, conduct training seminars, publish a newsletter, meet with the franchisor on a regular basis and retain legal counsel to advise franchisees of their rights.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(c) and reads, in part, as follows:

"(6) Business leagues, chambers of commerce, real estate boards, boards of trade, etc., 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 regulations provides as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote

CODP	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER
		[REDACTED]					
SUR. NAME		[REDACTED]					
DATE		10-1-61					

FACTS

... 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. 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 or produces only sufficient income to be self-sustaining, is not a business league. ***

In National Muffler Dealers Association, Inc. vs U.S., 79-1 USTC, 9284, the Supreme Court of the United States ruled that a trade organization which confined its membership to dealers franchised by a particular company and its activities to the business of that company was not exempt under section 501(c)(6).

Based on the information submitted, it is held that you do not qualify for exemption from Federal income tax under section 501(c)(6) of the code. You are not considered to be a "line of business" as defined by section 501(c)(6). The Commissioner and the courts have interpreted the term "line of business" to mean either an entire industry or all components of an industry within a geographic area. The Commissioner has consistently denied exemption to business groups whose membership and purposes are narrower. Those who have failed to meet the "line of business" test, in the view of the Commissioner, include groups composed of businesses that market a single brand of automobile, or have licenses to a single patented product, or bottle one type of soft drinks. The Commissioner has reasoned that these groups are not designed to better conditions in an entire industrial "line", but, instead, are devoted to the promotion of a particular product at the expense of others in the industry.

You are required to file an annual Federal income tax return on Form 1120.

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 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 892 gives instructions for filing a protest.

[REDACTED]

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.

Sincerely

[REDACTED]
District Director

Enclosures:
Form 6018
Publication 692