

An organization which operates a trading stamp plan, whereby the patrons of the organization's members are given trading stamps which are redeemable for merchandise at local stores, is not entitled to exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

Advice has been requested whether an organization which operates a plan for the issuance and redemption of trading stamps in behalf of participating merchants may qualify for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

Stated purposes of the organization are to further and promote the general business interests of the city, promote cooperation in all matters of interest to the business, professional and industrial men of the area, compile and distribute information to its members, and do all things as are proper for the general business interests of its members.

As its principal activity, however, the organization sells trading stamps to participating merchants, and furnishes stamp books and promotional material for advertising the stamp plan. It also conducts an advertising campaign to publicize the operation of the stamp plan, and holds a monthly drawing in which holders of filled stamp books are eligible to win valuable prizes. Each filled stamp book is redeemable for \$2 worth of merchandise in local stores, and the stores redeeming the books are reimbursed by the organization for this amount.

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

(6) Business leagues, chambers of commerce, * * * 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 reads, in part, as follows:

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. It is an organization of the same general class as a chamber of commerce or a 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. * * *

The operation of a trading stamp plan as described above constitutes the performance of particular services for participating merchants rather than the promotion of a common business interest as required by the applicable regulations. Furthermore, the operation of the trading stamp plan is a business of a kind ordinarily carried on for profit, even though it is operated on a cooperative basis, and produces only sufficient income to be self-sustaining.

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