

A nonprofit organization composed of advertising agencies, which verifies the advertising claims of publications selling advertising space and makes reports available to members of the advertising industry generally, qualifies for 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 is composed of advertising agencies placing advertising in newspapers and magazines. The publications make representations concerning the size of circulation and the economic background of their subscribers. An agency planning an effective promotion places advertising in reliance on these representations.

The organization's sole activity consists of the verification of these representations. It conducts periodic audits of each publication and reports on the accuracy of the publications' claims. The reports are made available to members of the advertising industry generally.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues 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 business league as 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 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.

Confirming the quality of products or services available to an industry promotes the common business interest of its members. It is held that the organization in this case is promoting the common business interest of the advertising industry as a whole by conducting audits to determine the quality of services available to the industry and making the results available to the industry generally.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(6) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must (in order to establish exemption

under section 501(c)(6) of the Code) file an application Form 1024, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.