

Business leagues; computer users. An organization whose members represent diversified businesses that own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Code. Rev. Rul. 74-147 distinguished.

ISSUE

Does the nonprofit organization described below, whose primary activity is promoting the common business interests of users of one particular brand of computers, qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code?

FACTS

The organization was formed to develop and disseminate information pertaining to the electronic data processing equipment manufactured by the M Corporation.

Its membership is made up primarily of representatives of diversified businesses that own, rent, or lease one or more computers produced by M. Membership is also open to representatives of other businesses that do not use M's computers.

The organization holds conferences at which operational and technical problems relating to computer use are discussed. Nonmembers are invited to attend the conferences and are encouraged to join as members. The speakers at the conferences typically include members as well as recognized professionals in the computer industry. Also, some representatives of M attend and disseminate current information relative to M's equipment.

Income is from conference registration fees. Expenditures are made for conference expenses and miscellaneous administrative costs.

LAW AND ANALYSIS

Section 501(c)(6) of the Code provides for the exemption from federal income tax 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 defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common interest. Its activities should be directed towards the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons.

Rev. Rul. 74-147, 1974-1 C.B. 136, holds that a nonprofit organization, whose members represent diversified businesses that own, rent, or lease digital computers produced by various manufacturers, and that is organized to improve the efficiency of its members' use of computers, qualifies for exemption under section 501(c)(6) of the Code. Rev. Rul. 74-147 states that the common business interest of the members of the organization is their common business problem concerning the use of digital computers. The primary objective of the organization is to provide a forum for the exchange of information that will lead to the more efficient utilization of computers by its members and other interested users, and thus improve the overall efficiency of the business operations of each.

In addition to promoting the common business interest of its members, a business league exempt under section 501(c)(6) of the Code must also seek to improve conditions in one or more lines of business. In *National Muffler Dealers Association, Inc. v. United States*, 440 U.S. 472, Ct.D. 1997, 1979-1 C.B. 198 (1979), the United States Supreme Court held that an organization of muffler dealers franchised by Midas International Corporation does not qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Code because the organization's purpose was too narrow to satisfy the line of business test of section 1.501(c)(6)-1 of the regulations. The Court concluded that the line of business limitation of section 1.501(c)(6)-1 is well grounded in the origin of section 501(c)(6) and in its enforcement over a long period of time. The Court further concluded that exemption under section 501(c)(6) is not available to aid one group in competition with another within an industry.

The term "line of business" has been interpreted to mean either an entire industry, see *American Plywood Assn. v. United States*, 267 F.Supp. 830 (W.D. Wash. 1967); and *National Leather & Shoe Finders Assn. v. Commissioner*, 9 T.C. 121 (1947), acq., 1947-2 C.B. 3, or all components of an industry within a geographic area, see *Commissioner v. Chicago Graphic Art Federation, Inc.* 128 F.2d 424 (7th Cir. 1942); *Crooks v. Kansas City Hay Dealers' Assn.*, 37 F.2d 83 (8th Cir. 1929); and *Washington State Apples, Inc. v. Commissioner*, 46 B.T.A. 64 (1942), acq., 1942-1 C.B. 17.

Organizations that have failed to meet the line of business test but instead were found to have served only a "segment of a line" include groups composed of businesses that have licenses to a single patented product (Rev. Rul. 58-294, 1958-1 C.B. 244); market a certain make of automobile (Rev. Rul. 67-77, 1967-1 C.B. 138); or bottle one type of soft drink (Rev. Rul. 68-182, 1968-1 C.B. 263). These groups promote segments of an industry at the expense of others in the industry.

Although the members of both the organization described in Rev. Rul. 74-147 and the organization under consideration here

have a common business interest concerning the use of computers, the organization in Rev. Rul. 74-147 directs its activities to users of computers made by diverse and competing manufacturers, while the instant organization directs its activities to users of computers made by one manufacturer. By directing its activities only to the users of brand M computers, the instant organization is directing its activities towards the improvement of business conditions in only segments of the various lines of business to which its members belong. Because it limits its activities to the users of M computers, the organization helps to provide a competitive advantage to M and to its customers at the expense of M's competitors and their customers that may use other brands of computers. Thus, the organization's activities are not directed towards the improvement of business conditions in one or more lines of business within the meaning of section 1.501(c)(6)-1 of the regulations.

HOLDING

The organization described above, whose primary activity is promoting the common business interests of users of one particular brand of computers, does not qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Code.

EFFECT ON OTHER REVENUE RULINGS

Rev. Rul. 74-147 is distinguished.

Internal Revenue Service