

Rev. Rul. 64-315, 1964-2 C.B. 147, clarified Rev. Rul. 73-411

An association of merchants whose businesses constitute a shopping center expends its funds and engages exclusively in advertising in various newspapers and on television and radio in order to attract customers to the shopping center. This advertising contains the names of member merchants and their merchandise. Held, the organization is not entitled to exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code of 1954.

Advice has been requested whether an association of retail dealers whose businesses constitute a 'shopping center' may qualify for exemption from Federal income tax as a business league described in section 501(c)(6) of the Internal Revenue Code of 1954, under the circumstances described herein.

The organization was incorporated under state law, without capital stock, as a nonprofit corporation. Its purposes, as stated in its articles of incorporation, are to foster public relations, advertising and publicity campaigns of all kinds, to perform chamber of commerce activities and general to promote the best interests of the merchants and citizens of the community.

The organization's activities consist of publication of an advertising newspaper hereinafter referred to as the 'shopping news', advertising in other community publications, sponsorship of commercial advertising on television and radio, and certain promotions designed to attract shoppers to the shopping center. The shopping news consists primarily of advertising by individual member merchants. The part of advertising is paid for by the individual merchants. The part of the shopping news which advertises the shopping center as a whole also frequently lists the names of its member merchants who are located within the shopping center. Most of the other advertising carried in community publications contains the names of individual merchants. Also some of the radio and television commercials occasionally mention the name of a member merchant. This latter type of advertising is paid for with association funds.

The association's income is derived from assessments paid by the merchants and landlords of the shopping center. The expense of publishing the shopping news represents approximately 50 percent of the organization's expenditures. Other expenditures are for other types of advertising, promotional services and expenses, office supplies, gift certificates, and special decorations, etc.

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 particular 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. * * *

For an organization to meet the requirements for exemption as a chamber of commerce or business league within the meaning of the above-quoted provisions of the Code and regulations, the advertising in which the organization engages must benefit business in the community generally, or an industry as a whole. See Rev. Rul. 55-444, C.B. 1955-2, 258.

Under the circumstances described above, the publication of a shopping news, advertising in other publications and also by radio and television, by which means the organization advertises the merchandise and the names of its member merchants, is shown to be the primary purpose and activity of the organization. Such activity constitutes the performance of particular services for members rather than an activity directed to the improvement of business conditions generally as required by the applicable regulations.

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