

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer To: [REDACTED]

Date: MAR 10 1987

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code of 1954.

The information submitted indicates that you were incorporated on [REDACTED] under the Business Corporation Act of [REDACTED].

Your purposes according to your Articles of Incorporation are: to conduct polls among your members on matters of importance to the American consumer; to collect, compile and disseminate consumer information through the mass media to your members and to the general public; to carry on educational programs among your members and the general public relating to matters of vital interest to consumers.

Your activities include forming advisory committees to study and recommend products/services for members. There are currently three committees: travel, insurance, and health care. In the future you plan to establish committees to study and recommend products/services such as motor vehicles, energy, homeowners, financial services, legal services, and education.

Additional benefits offered by your organization include a buying club whereby members can call a toll-free number in order to purchase over [REDACTED] items at quoted prices. If a member finds a lower price item at another location, which the member purchased from the club at \$[REDACTED] or more, the member will receive a rebate for the difference. Other benefits to members include the following: prescription drugs and vitamins at a discount; a [REDACTED] discount at [REDACTED]; travel discounts with airlines and hotels when reservations are made through travel agencies approved by your organization; group insurance underwritten by the [REDACTED]; pre-paid legal services at a discount of [REDACTED] % less than nonmembers; accidental death insurance of \$1,000 to [REDACTED]; vacation savers discounts; Master Card and Visa accounts at a reduced annual fee; personalized itineraries and tours in the United Kingdom at reduced rates; free information through your consumer library; and a newsletter published six times per year.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname							
Date							

Membership in your organization is open to anyone at a cost of \$[redacted] per year for full member benefits and \$[redacted] per year for a participating member. Your benefits and services are restricted to your membership, except for the subscriptions to your newsletter which is available to nonmembers.

You stated that your benefit program is funded by [redacted]% of your total revenues. You also stated that you will seek to increase the buying power of your members by expanding your membership. As a result you have designated [redacted]% of your total revenues for recruitment of members.

Section 501(c)(3) of the Code provides for the exemption from Federal Income Tax of corporations organized and operated exclusively for religious, charitable, literary, scientific, and educational purposes; no part of the net earnings of which inures to any private shareholder or individual.

Section 1.501(c)(3)-1 of the Tax Regulations relates to the definition of the organization and operation of organizations described in Section 501(c)(3). It is quoted, in part, as follows:

"(a) Organizational and operational tests. (1) In order to be exempt as an organization described in Section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt. (2) The term "exempt purpose or purposes", as used in this section, means any purpose or purposes specified in Section 501(c)(3)...."

"(b) Operational test. (1) Primary activities. An organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in Section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. (2) Distribution of earnings. An organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals..."

Section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations provides that an organization is not organized and operated exclusively for exempt purposes unless it serves a public rather than a private interest. Thus, it is necessary for an organization seeking exemption under Section 501(c)(3) to establish that it is not organized or operated for the benefit of private shareholders or designated individuals, the creator or his family, a group of persons, the organization, or persons controlled, directly or indirectly, by such private interests.

-2-

[REDACTED]

In construing the meaning of the phrase "exclusively for educational purposes" in Heller Business Bureau v. U.S., 326 U.S. 279 (1945) the Supreme Court of the United States said, "This plainly means that the presence of a single non-educational purpose, if substantial in nature will destroy the exemption regardless of the number or importance of truly educational purposes". This statement applies equally to any category of charitable purpose under Section 501(c)(3) of the Code.

Examination of the information supplied with your application indicates that your organization's primary activity is providing benefits to members in the form of discounts underwritten by various private companies. This is evidenced by the fact that [REDACTED] % of your revenues are used to finance this activity. You are also operating for the benefit of those companies which offer discounts to your members. These activities are outside the scope of Section 501(c)(3).

Accordingly, we have concluded that you are not entitled to recognition of exemption from Federal Income Tax under Section 501(c)(3) of the Code, since you are not organized and operated exclusively for charitable, religious, or other exempt purposes within the meaning of Section 501(c)(3).

You are required to file Federal Income Tax Returns.

Contributions made to you are not deductible by the donors as charitable contributions as defined in Section 170(c) of the Code.

If you do not agree with these conclusions, you may within thirty days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of qualification to practice must be met. We have enclosed Publication 142, Types of Administrative Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

If you do not contest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 742F(b)(2) of the Internal Revenue Code provides in part that "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service".

[REDACTED]

If we do not hear from you within 30 days from the date of this letter, this determination will become final. In accordance with Code section 6104(c), we will notify the appropriate State officials of this action.

Please keep this determination letter in your permanent records.

If you agree with this determination, please sign and return the enclosed Form 6018.

Sincerely yours,

[REDACTED]

District Director

Enclosures:
Publication 992
Form 6018