Rev. Rul. 69-106, 1969-1 C.B. 153

A nonprofit manufacturers' organization that conducts research in projects of common interest to their industry and makes the results available only to its members rather than to the industry as a whole does not qualify for exemption under section 501(c)(6) of the Code.

Advice has been requested whether under the circumstances described below a nonprofit organization qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization was formed and is operated by a group of manufacturers to carry on research and development in projects of common interest to their industry. A committee of the membership agrees on what projects will be undertaken. No research is conducted for any particular member. All research projects are financed solely by the dues of the members. The results of the research are made available only to members.

Although membership in the organization is open to all businesses in the industry on an equal basis, not all the businesses in the industry are members.

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 provides that the activities of a business league exempt under this section 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.

In order to be exempt under section 501(c)(6) of the Code, a research organization must make the results of its research available to all the members of an industry. Since this organization distributes the results of its research only to its members, its activities are not aimed at the improvement of business conditions for the entire industry.

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