



Associations: Avoid Certain Activities to Preserve Tax-Exempt Status

Nonprofit trade associations, or 501(c)(6) organizations, exist to promote their members' common interests and improve business conditions or "one or more lines of interest." Whether the association is a local chamber of commerce, a real estate board or a large professional group, associations' tax-exempt status is contingent on their sponsoring certain types of activities — and avoiding others. When they fail to do so, the IRS may take action.

Misinterpreting Terms

Typically, associations get into trouble when they interpret terms such as "promote common interests" and "improve business conditions" too broadly. For example, they might provide customized sales training for only some of their members. But associations don't qualify for tax-exempt status if they exist only to perform services for individual members.

Another potential violation is engaging in business that's normally carried out on a for-profit basis. And groups that are primarily social or that exist to promote a hobby generally don't qualify for 501(c)(6) status.

Differentiating Between Activities

To avoid IRS scrutiny, you must be able to differentiate between qualified and nonqualified activities. For example, it's acceptable to attempt to influence legislation relating to the common business interests of your members. You can also test and certify products and establish industry standards; publish statistics on industry conditions to promote your members' line of business; and research effective business practices and share that information with your members.

But you should limit activities if they benefit specific members rather than the industry or profession as a whole. These might include:

- Selling advertising in member publications,
- Facilitating the purchase of supplies for members,
- Providing workers' compensation insurance to members.

Your association's "primary purpose" is key. Most 501(c)(6) groups perform some activities that don't primarily serve common business interests. But these activities generally should be limited in scope and number.

Avoiding UBIT

Even when certain activities don't threaten your exempt status, performing services for members can trigger unrelated business income tax (UBIT). Typically, members pay for such services directly, instead of through dues or other common assessments. Depending on the services your association provides and the revenues raised, additional reporting may be required and you may owe UBIT.

Stop and reassess if you're performing more services, or more substantial ones, for individual members. Instead, you might form a separate for-profit organization to offer those services.

Keeping Your Focus

The IRS is on the lookout for 501(c)(6) associations that don't promote common business interests. If yours doesn't, it may be time to review and revise your offerings. Contact us for help.