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A Few Good Things to Know About Section 501(c)(6) Organizations

What is a 501(c)(6) Organization?

Section 501(c)(6) of the Internal Revenue Code (the “Code”) offers tax-exempt status to trade associations, business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues, among other similar types of organizations. These organizations are not organized for profit and no part of their net earnings benefit any private shareholder or individual. The primary purpose of a 501(c)(6) organization is to serve its members (as opposed to the public as a whole).

What is a Business League?

Under the Code and relevant Treasury Regulations, a “business league” is an association of persons having some common business interest, the purpose of which is to promote their common interest and not to engage in a regular commercial business. Trade associations and professional associations are generally considered business leagues. A 501(c)(6) business league's activities must be devoted to improving business conditions of one or more lines of business as distinguished from performing particular services for individual persons. The term “line of business” refers either to an entire industry or to all components of an industry within a geographic area. It does not include a group composed of businesses that market a particular brand within an industry (e.g., a group of Burger King franchisees would generally not qualify as 501(c)(6) organization).

Are Section 501(c)(6) Organizations Required to File Form 1023?

No, 501(c)(6) organizations do not file Form 1023 (that is the form for recognition of Section 501(c)(3) status). Section 501(c)(6) organizations may file Form 1024 with the IRS to receive recognition of tax-exempt status. Filing Form 1024 is not mandatory, but a new 501(c)(6) organization might find it advantageous to file Form 1024 for a number of reasons.

Are 501(c)(6) Organizations Required to File Form 990?

Yes, 501(c)(6) organizations are required to file an annual Form 990 (990, 990-EZ, 990-PF, 990-N e-Postcard). If an organization fails to file the required Form 990 for three (3) consecutive years, it will automatically lose its tax-exempt status.

How Does a 501(c)(6) Organization Generate Revenue?

The organization must be primarily supported by membership dues and other income from activities substantially related to its exempt purpose.

May a 501(c)(6) Organization Engage in Lobbying?

Yes, 501(c)(6) organizations are allowed to engage in any amount of legislative activity relevant to the common business interests of its members. As a practical matter, however, lobbying should not be the organization’s major focus. In addition, lobbying activities could have an impact on the deductibility of membership dues by members.