Rev. Rul. 71-504, 1971-2 C.B. 231

A city medical society, exempt under section 501(c)(6) of the Code, that primarily directs its activities to the promotion of the common business purposes of its members may not be reclassified as an educational or charitable organization under section 501(c)(3); I.T. 3182 superseded.

A city medical society, which has been recognized as exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954, has asked the Internal Revenue Service whether it may be reclassified as a charitable and educational organization exempt from Federal income tax under section 501(c)(3) of the Code.

The society was created for the purpose of promoting the art of medicine, the betterment of public health, and the unity, harmony and welfare of members of the medical profession.

The society's membership is open to all medical doctors in the community. It engages in the following activities:

(a) Holding monthly meetings where technical papers demonstrating clinical care and new procedures are presented by the members and discussed;

(b) Maintaining an extensive library of medical books and periodicals used by the members;

(c) Supporting medical education at local medical schools by providing lectures and counseling services;

(d) Supporting local public health programs;

(e) Publishing a monthly journal containing educational material, notices and other matters of interest to individual doctors;

(f) Providing a patient referral service for members;

(g) Maintaining a grievance committee to hear complaints and settle disputes between member doctors;

(h) Establishing a legislative committee to communicate the association's attitudes to state and local government officials on issues germane to its members' professional interests such as professional incorporation legislation, medicare legislation, and compulsory health care legislation;

(1) Holding meetings concerned with matters affecting the promotion and protection of the practice of medicine; and

(j) Conducting a public relations program to enhance and improve the public image of the medical profession.

The activities set forth in paragraphs (f) through (j) constitute a substantial portion of the society's total activities.

Section 501(c)(3) of the Code provides in part for the exemption from Federal income tax of organizations 'organized and operated exclusively for * * * charitable * * * or educational purposes'.

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 defines a business league as an association of persons having a 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.

While some of the society's activities are charitable or educational, the activities cited in paragraphs (f) through (j) are directed primarily at the promotion of the medical profession and thus further the common business purpose of its members. Moreover, it has been held that the presence of a single noncharitable or noneducational purpose, if substantial in nature, will preclude exemption under section 501(c)(3) regardless of the number or importance of truly charitable or educational purposes. See Better Business Bureau v. U.S., 326 U.S. 279 (1945), Ct. D. 1650, C.B. 1945, 375, and Revenue Ruling 71-505, page 232. See also Revenue Ruling 61-177 C.B. 1961-2, 117, with respect to legislative activities of business leagues.

Since the society has substantial noncharitable and noneducational purposes and activities, it is not a charitable organization. Accordingly, it is held that this association may not be reclassified as an organization exempt from Federal income tax under section 501(c)(3) of the Code.

I.T. 3182, C.B. 1938-1, 168, is hereby superseded since the position stated therein a restated in this Revenue Ruling.