8 T.C. 894 (1947)

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An association that publishes a catalog listing only the products of its member manufacturers is performing a special service for those members and does not qualify for tax exemption as a business league under Internal Revenue Code Section 101(7).

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Summary

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The Automotive Electric Association (AEA) sought tax-exempt status as a business league under Section 101(7) of the Internal Revenue Code. The Tax Court denied the exemption because the AEA, as one of its primary activities, published a catalog listing only the products of its member manufacturers. The court reasoned that this activity constituted a "particular service" to its members, distinguishing it from the broader goal of improving business conditions generally for an entire industry. The court also upheld penalties for the AEA's failure to file timely returns.

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Facts

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The AEA was an association of manufacturers, distributors, and service companies in the automotive electrical equipment industry. One of its main activities was publishing a catalog that listed parts produced by its manufacturing members for various makes and models of vehicles. The catalog was available to both members and non-members, but most sales were to members. The AEA also offered tune-up charts and other services, sometimes at a discount for members. The AEA claimed its purpose was to promote cooperation and eliminate unfair trade practices, operating as a non-profit entity.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in the AEA's income tax for the years 1940, 1941, and 1942, also imposing penalties for failure to file timely returns. The AEA petitioned the Tax Court for a redetermination, arguing it was exempt from income tax as a business league. The Tax Court upheld the Commissioner's determination.

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Issue(s)

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1. Whether the petitioner was exempt from income tax as a business league within the meaning of Section 101(7) of the Internal Revenue Code.

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2. If not exempt, whether the delinquency in filing returns for the taxable years was due to a reasonable cause.

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Holding

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1. No, because the publication of a catalog listing only the products of member manufacturers constitutes a particular service to those members, disqualifying the association from business league status.

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2. No, because the petitioner could have filed timely returns and later sought a determination of its exempt status.

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Court's Reasoning

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The court relied on Section 101(7) of the Internal Revenue Code, which exempts business leagues from taxation if they are not organized for profit and no part of their net earnings inures to the benefit of any private shareholder or individual. The court also cited Treasury Regulations defining a business league as an association

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promoting common business interests, “as distinguished from the performance of particular services for individual persons.” The court found that publishing a catalog listing only the products of member manufacturers constituted a “particular service” that benefited those members by advertising their goods, and was thus an activity

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