Oklahoma City Retailers Association v. Commissioner, T.C. Memo. 1948-116

An unincorporated association is not taxable as a corporation if it lacks sufficient resemblance to a corporate structure and operation, particularly if it does not hold property for income production and its members retain individual liability.

Summary

The Oklahoma City Retailers Association, an unincorporated entity, contested the Commissioner's determination that it was subject to income tax as a corporation. The Tax Court held that the association did not sufficiently resemble a corporation to be taxed as such. While the association facilitated insurance policy orders for its members and managed funds, it lacked corporate characteristics such as holding property for income production, centralized management making business decisions, and limited liability for its members. The court determined that the association operated more like an expanded partnership and thus reversed the Commissioner's deficiency determination.

Facts

The Oklahoma City Retailers Association was an unincorporated association with the stated objectives of promoting its members' business interests by enforcing ethical standards, encouraging efficiency, influencing legislation related to insurance, and disseminating information on insurance and safety. The Association helped members procure orders for insurance policies from government agencies, collected premiums, covered expenses, and distributed the remaining funds to its members. It maintained a bank account to cover expenses but had minimal assets, and its funds were derived primarily from member dues.

Procedural History

The Commissioner of Internal Revenue determined that the Oklahoma City Retailers Association was subject to income tax as a corporation. The Association contested this determination before the Tax Court, arguing that it lacked the necessary corporate resemblance and was also tax-exempt as a business league. The Tax Court reviewed the case and rendered a decision.

Issue(s)

1. Whether the Oklahoma City Retailers Association possessed sufficient characteristics of a corporation to be classified and taxed as such under Section 3797(a)(3) of the Internal Revenue Code.

2. Whether the Association was exempt from taxation under Section 101(7) as a business league.

Holding

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1. No, because the Association lacked key corporate characteristics such as holding property for income production, centralized business management making independent business decisions, and limitation of liability for its members.

Court's Reasoning

The court applied the Supreme Court's guidance in *Morrissey v. Commissioner*, which outlined key corporate features for determining corporate resemblance: title to property, centralized management, continuity, transferability of interests, and limited liability. The court found that the Association's activities had "only minor and incidental resemblances to corporate structure and operation." It determined that the Association did not hold property or funds as working capital to produce income. Its officers and committees carried out instructions from the membership rather than making independent business decisions. Although membership could be transferred, it was subject to eligibility requirements and approval, unlike the free transferability of corporate shares. Crucially, members bore individual liability for their insurance policies. The court emphasized that the Association acted as an agent for its members and did not itself sell policies. As the court stated, it should be classified as the type of entity to which it "is predominantly akin in the method, mode, and form of procedure in the conduct of its business." Given these factors, the Tax Court concluded that the Association more closely resembled an expanded partnership than a corporation.

Practical Implications

This case clarifies the factors that distinguish an association taxable as a corporation from other types of business entities. It underscores that simply having some corporate-like features is insufficient; the entity must predominantly resemble a corporation in its structure and operations. The ruling emphasizes that associations lacking independent business management, holding no property for investment, and having members with unlimited liability are less likely to be taxed as corporations. This decision informs how the IRS and courts should analyze similar cases, particularly when determining the tax status of unincorporated organizations. It is essential to consider the practical realities of the entity's operations rather than relying solely on its formal structure. Later cases will cite this ruling to differentiate associations from corporations based on the level of resemblance to corporate attributes outlined in *Morrissey*.

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