***12 T.C. 967 (1949)***

An automobile club providing commercial services to its members at reduced rates, competing with for-profit businesses, is not exempt from federal income tax under Section 101(9) of the Internal Revenue Code.

**Summary**

The Chattanooga Automobile Club sought tax-exempt status under Section 101(9) of the Internal Revenue Code, arguing it was a non-profit club operated for the pleasure and recreation of its members. The Tax Court disagreed, finding the club engaged in substantial commercial activities by providing services such as bail bonds, accident insurance, and emergency road service to its members at rates lower than available elsewhere. The court concluded that these activities constituted a business, thereby disqualifying the club from tax-exempt status, even though it was organized as a non-profit entity. The court emphasized that the club's activities went beyond merely incidental services.

**Facts**

The Chattanooga Automobile Club was incorporated in Tennessee in 1907 as a non-profit entity. The Club offered services to its members, including bail bonds, personal accident insurance, maps, tour books, road information, towing and emergency road service, motor vehicle license procurement, theft rewards, and lock and key services. These services were offered at a cost lower than could be obtained elsewhere. The club derived its income primarily from membership dues. No director or officer received compensation. The Club also engaged in activities such as erecting road signs, fostering school patrols, and sponsoring safe driving courses.

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in the Club's income tax and declared value excess profits tax for the fiscal year ending September 30, 1944. The Club protested, claiming tax-exempt status. The Tax Court ruled in favor of the Commissioner, finding the Club was not exempt from federal income tax.

**Issue(s)**

Whether the Chattanooga Automobile Club was exempt from federal income tax under Section 101(9) of the Internal Revenue Code as a club organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes.

**Holding**

No, because the Club's activities extended beyond "pleasure, recreation, and other nonprofitable purposes" by offering commercial services to members, placing it in competition with for-profit businesses.

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## Court’s Reasoning

The court reasoned that the Club’s primary activity was rendering commercial services to its members at a lower cost than they would have to pay elsewhere. The court noted the club paid commissions to increase membership, suggesting a business-like operation. The court determined that the services provided, such as bail bonds, accident insurance, towing and road service, were substantial and not merely incidental to a non-profit purpose. The court emphasized that the Club was “definitely engaged in business of a kind generally carried on for profit,” and that its members profited by receiving services cheaper than they could have obtained elsewhere. The court explicitly disagreed with the contrary holding in *California State Automobile Association v. Smyth, 77 F. Supp. 131*.

Judge Harlan, in dissent, argued that the club was primarily acting as a purchasing agent for its members and that its net earnings did not inure to the benefit of any private shareholder. Judge LeMire, also dissenting, highlighted the Commissioner’s long-standing prior interpretation granting exemptions to similar automobile clubs and argued the majority’s opinion represented an inappropriate reversal of policy.

## Practical Implications

This case demonstrates that organizations claiming tax-exempt status under Section 101(9) must ensure their activities are primarily for pleasure, recreation, or similar non-profitable purposes. Providing substantial commercial services, even at cost, can jeopardize tax-exempt status, particularly if the organization competes with for-profit businesses. The case emphasizes the importance of analyzing the scope and nature of an organization’s activities, not just its stated purpose, when determining eligibility for tax exemption. Later cases have cited *Chattanooga Automobile Club* to support the denial of tax exemptions to organizations engaged in commercial activities that extend beyond incidental support of a primary exempt purpose. The ruling also serves as a reminder that while prior administrative interpretations can be persuasive, they are not binding and can be overturned if deemed inconsistent with the statute.

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