***MIB, Inc. v. Commissioner, 80 T. C. 438 (1983)***

A nonprofit organization that serves the common business interest of its members through industry-wide activities, rather than providing particular services to individuals, can qualify as a tax-exempt business league under Section 501(c)(6).

**Summary**

MIB, Inc. , a nonprofit association of virtually the entire U. S. life insurance industry, operated a system for the exchange of confidential underwriting information to deter fraud and misrepresentation in life insurance applications. The IRS challenged MIB's tax-exempt status under Section 501(c)(6), arguing that it was engaged in a business ordinarily conducted for profit and provided services to individual members. The Tax Court held that MIB qualified as a tax-exempt business league because it was not engaged in a profit-oriented business and its primary purpose was to benefit the industry as a whole, not individual members. The decision underscores the importance of industry-wide cooperation in combating fraud and highlights the nuances of qualifying for tax-exempt status under Section 501(c)(6).

**Facts**

MIB, Inc. , a nonprofit corporation, was formed in 1978 and succeeded the Medical Information Bureau, which had operated since 1890. Its membership included over 98% of the U. S. life insurance industry. MIB's primary activity was operating a system for the exchange of confidential underwriting information among members to detect and deter fraud and misrepresentation in life insurance applications. This involved collecting, storing, and disseminating coded medical and nonmedical information about applicants. MIB's members were required to submit information at their expense, and the information exchange was used to verify applicant data. MIB's operations were funded through assessments and fees charged to its members.

**Procedural History**

MIB filed for tax-exempt status under Section 501(c)(6) in 1978, which was denied by the IRS in 1980. MIB then filed a petition with the U. S. Tax Court to challenge the IRS's determination. The Tax Court held a trial and issued its opinion in 1983, ruling in favor of MIB and granting it tax-exempt status as a business league.

**Issue(s)**

1. Whether MIB, Inc. was engaged in a regular business of a kind ordinarily conducted for profit.
2. Whether MIB, Inc. 's activities constituted the performance of particular services for individual persons rather than improving business conditions for the life insurance industry as a whole.

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## Holding

1. No, because MIB was not engaged in a regular business of a kind ordinarily conducted for profit. There were no actual or reasonably foreseeable commercial competitors providing a similar service.
2. No, because MIB's activities were directed toward improving business conditions in the life insurance industry as a whole, with benefits to individual members being incidental to its primary purpose of deterring fraud and misrepresentation.

## Court's Reasoning

The Tax Court applied the six requirements for exemption under Section 501(c)(6) as set forth in the regulations. It found that MIB satisfied these requirements because it was an association of persons with a common business interest (life insurance companies), its purpose was to promote that interest by deterring fraud, it was not organized for profit, it was not engaged in a profit-oriented business, its activities improved business conditions industry-wide, and its net earnings did not inure to the benefit of private shareholders. The court distinguished MIB's activities from those of commercial credit bureaus, noting that MIB's information exchange was not used as the basis for underwriting decisions and was limited to its members. The court emphasized that the primary benefit of MIB's activities was the industry-wide deterrence of fraud, with benefits to individual members being incidental. The court also considered the lack of actual or reasonably foreseeable commercial competition as evidence that MIB was not engaged in a profit-oriented business.

## Practical Implications

This decision clarifies the criteria for tax-exempt status under Section 501(c)(6) for business leagues, particularly those engaged in industry-wide cooperative efforts. It demonstrates that organizations can qualify for exemption even if their activities indirectly benefit individual members, as long as the primary purpose is to improve conditions for the industry as a whole. The ruling underscores the importance of industry cooperation in combating fraud and misrepresentation, which has implications for other industries seeking to implement similar information-sharing systems. It also highlights the need for organizations to carefully structure their activities and fee arrangements to ensure that they align with the requirements for tax-exempt status. Subsequent cases have cited MIB, Inc. v. Commissioner in analyzing the tax-exempt status of various business leagues and trade associations.

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