



## **Associate Member Dues:** Understanding the Tax Implications

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## Background

Many tax-exempt membership organizations (Internal Revenue Code Section 501(c)(6) organizations) want to increase their membership base by charging lower, associate member dues. These associate member dues often provide for benefits in the organization that are less than what full member's dues will offer. Generally, when these membership fees or dues are paid by all members in general support of an organization's exempt purpose and activities, it is deemed related to the exempt purpose. Therefore, the fees should not be treated as income from an unrelated trade or business subject to tax.

An organization may seek additional income by providing unrelated products and services. These unrelated products and services may be made available to members who are not interested in the exempt purpose of the organizations. In these cases, the organization may want to establish associate or limited membership categories. Associate members typically would not have direct contact with the exempt functions of the organization, have limited or no voting power and participate solely for the benefits. Should this be the case, the dues or fees may be considered unrelated business income subject to tax.

## IRS Factors for Related Income

The Internal Revenue Service has identified several factors that it may consider when deciding if associate member dues are related income not subject to tax. These include:

1. The organization had no particular benefits available to individuals who were not active members;
2. There is real involvement by associate members in exempt function activities, including policy and decision making; and
3. The difference between the dues structure for associate and active members did not indicate a desire to generate income since the dues for associate members could be as low as the lowest active membership dues, and the highest associate membership dues were far less than the highest active membership dues.

An organization that creates associate member dues or fees should document how these associate level members meet the above standards, including their privileges to vote or hold office. If the organization meets the above criteria, then the income from the associate member dues and fees should be considered related income not subject to tax.

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