



## **CHAPTER AFFINITY PROGRAMS**

**(a/k/a Discount Programs with Business Partners)**

### **Key ALA Policies:**

- Neither the international Association nor a chapter will **endorse** products or services unless prior approval has been granted by ALA's Board of Directors.
- Any chapter wishing to enter into or renew an agreement with a benefit provider must obtain written approval from ALA headquarters.
- Approval can be granted if the agreement does not compete with existing or proposed contracts of the parent organization (see list of current participants in [ALA's Value In Partnership](#) (VIP)<sup>SM</sup> Program).

### **Revenue for a 501(c)(6) is considered taxable if it is:**

- Derived from a trade or business
- Regularly carried on
- Unrelated to the chapter's exempt purpose

### **Exempt Purpose:**

To promote and improve the legal profession **as a whole** rather than individual members.

### **Services Benefiting the Profession (non-taxable examples):**

*(Not all of these activities apply to ALA and its chapters; these examples are provided for the purpose of engaging in discussions with your local tax and legal advisers.)*

- Examination for certification of professionals
- Education programs (can be lucrative; includes publications, periodicals, books)
- Research and publication of technical information, but only if it's available to nonmembers (even at a higher price) as well as members
- Trade shows that promote the profession as opposed to those organized to allow members to sell products or services individually
- Setting and publishing standards
- Testing for quality control
- Peer reviews and ethics audits
- Mediation services to settle disputes in the industry
- Publication of catalogs advertising products or services offered by members
- Employment placement services (tax exempt if nonmember participation is allowed)
- Group insurance plans for members
- Credit rating, billing or information services
- Collective bargaining agreement records
- Sales of standardized forms to members (generally) if available to public, tax exempt

### **Other Sources of Revenue:**

- Advertising (generally taxable)
- Sponsorships (generally exempt)
- Mailing list rental (generally taxable)
- Royalty (tax-free if no substantial services are provided by the chapter)

### **Taxation of UBIT:**

- Form 990T must be filed.
- Direct/indirect expenses can be deducted from taxable revenue.
- Indirect expenses must be allocated on a rational and systematic basis.
- Taxes are paid at corporate rates.
- Corporate estimated tax rules apply.

### **Affinity Program Considerations & Tips:**

- Label the contract as a Royalty Agreement.
- Use terms like “royalty” vs. “rebate, kick-back or profit”; use “sponsor” vs. “endorse”.
- Royalty must be an option, not a requirement.
- Royalties are tax-free if no substantial services are provided by the chapter.
- Labels/lists — be cautious of frequency and don’t provide special services.
- Exclusivity — not recommended; cannot force members to use affinity program providers and may impact your ability to do other programs in ways not initially envisioned.
- Vendor should be responsible for the marketing — NOT the chapter!
- Telemarketing/email addresses — how much accessibility will you allow to your members?
- Chapter’s involvement should be limited to creating awareness of the program through:
  - Pre-approval of the marketing materials, e.g., promotional letters, scripts and ads.
  - Monitoring proper use of logo (see Chapter Logo Use Agreement on [ALA’s website](#)).
- Limit use of chapter letterhead for promotional activities.
- Limit use of letters from chapter leaders encouraging member participation.
- Address handling of labels, lists, ads and exhibit space in a standalone contract instead of combining with the Royalty Agreement.
- Include a cross-indemnification provision.
- Confidentiality provisions by all parties should be required.
- Term of agreement and “out” clause — typically a minimum 2-3 year commitment for the first term; then define renewal options (automatic vs. action required).
- Governing law — “home court advantage” is recommended.