



“Trade associations are the safeguards of small business and thus prevent the extinction of competition. With wisdom and devotion, their voluntary forces can accomplish more for your country than any spread of the hand of government.” – Herbert Hoover, 1923

A Brief History

Trade and professional associations have deep roots in our nation’s history, and while their business models and activities may be substantially more complex in the modern era, they remain undeniably enmeshed in the daily patterns of American life and community.

Although associations are formed for a wide range of purposes, the Internal Revenue Service (IRS) – the federal agency tasked with oversight and enforcement of the tax-exempt sector – broadly defines associations as “a group of persons banded together for a specific purpose.”

People voluntarily join associations because they want to work together on a common cause or interest. The first American settlers formed “guilds,” patterned after British traditions, to address common challenges and support each other’s work and lifestyle. The first American trade association, the Philadelphian House Carpenters, was formed in 1724. America’s first scientific society, the American Philosophical Society, was founded by Benjamin Franklin in 1743, and is still in existence today.

The distinctive pattern of coordinated activity evident in associations has shaped and advanced America since its birth and has historically set America apart from many other nations (although associations or “non-governmental organizations” are now growing in number internationally as well). By 1835, when noted French political thinker and historian Alexis de Tocqueville published *Democracy in America*, associations had become prevalent and effective contributors to the so-called “American way.”

“Americans of all ages, all conditions, and all dispositions constantly form associations,” de Tocqueville wrote. “Wherever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association.”

The first integrated federal income tax statute enacted in 1913 provided exemptions for business leagues, as associations were known at that time. The 1913 Act also provided exemptions for charitable, scientific, and educational organizations. Subsequent revenue and tax reform acts in 1950 and 1969 created the contemporary structure under which associations operate today. There are currently nearly 30 different subsections of tax-exemption in the U.S. Tax Code.

Congress first gave associations favored tax treatment largely in recognition of the public benefits derived from their activities. In simple terms, associations earn their tax-exempt status by satisfying many of the needs of various industries, professions and the general public that the government would otherwise have to address.

Associations as Job Creators

Associations contribute in direct and significant ways to U.S. economic stability and growth. Government statistics show that associations are good employers, paying above average wages, and enabling the continuing education of many American workers.

In 2011, there were 70,330 trade and professional associations on record with the IRS. These organizations employ 1.2 million people, generate a payroll of nearly \$47 billion, and pay their employees an average annual wage of more than \$60,000.

Despite their tax-exempt status, associations are by no means exempt from all taxes and, in fact, contribute substantially to national, state and local economies across the nation. Among the taxes associations pay are federal payroll (Social Security, Medicare, and unemployment) taxes, state and local unemployment taxes, real estate taxes, personal property taxes, sales and use taxes, franchise taxes, taxes on lobbying activities, and taxes on unrelated business income (UBIT).

Despite the lagging economy, it's clear from IRS data that the number of associations continues to climb as new industries and professions emerge. A look at some of the fastest-growing industries in the world today like alternative energy, biotechnology, electronic commerce, and Internet publishing provides strong clues about where we will see new trade and professional associations forming in the years ahead.

The Power of Associations

Associations engage in a wide variety of activities that benefit industries and professions, enrich society and drive economic growth. These activities include:

- Associations are the primary source of post-college education and skills training for America's workforce.
- Associations create product service standards for everything from children's toys to building construction.
- Associations define and advance standards for professional certification and performance and for ethical practices in a wide variety of fields.
- Associations foster volunteerism by sponsoring community programs and lending assistance in moments of great need, such as after natural disasters.
- Associations drive the meetings and conventions industry, which supports 1.7 million jobs and accounts for \$263 billion in spending.

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