

LTR 200531020 5/12/2005

Code Section 512

* Section 512: Trade shows

This letter is in reply to your letter in which you (M) requested a ruling whether a contractual relationship with a for-profit company would violate your tax exempt status under section 501(c)(6) of the Internal Revenue Code.

M is a trade association recognized by the Internal Revenue Service as exempt from federal income tax under section 501(c)(6) of the Code. M's membership companies are engaged in the manufacturing and merchandising of m products and represent every segment of the m industry. M is governed by a volunteer Board of Directors elected by the members, and is operated on a day-to-day basis by a paid staff. M sponsors two annual trade shows, which include exhibits and educational programs. M also develops voluntary industry standards, sponsors industry research, and publishes a monthly membership newsletter. In the prior year, M's unrelated business income was \$0.

N is a for-profit corporation. N's primary business is the management of nonprofit associations and the conduct of trade shows. N also owns an annual trade show serving the m industry which is held each summer (Summer Show). This show consists of m and related product exhibitors and educational programs.

M and N entered into an agreement entitled Trade Show Sponsorship Contract for M (Sponsorship Contract). Pursuant to the Sponsorship Contract M agrees to:

- (1) Sponsor the Summer Show for the next four years;
- (2) License N to use M's name and logo in connection with the Summer Show;
- (3) Actively promote the Summer Show and solicit booth sales and attendee registrations;
- (4) Use commercially reasonable efforts to identify and solicit new exhibitors and attendees for the Summer Show and refer and/or identify such prospects to N;
- (5) Provide positive editorial coverage of the Summer Show before and after each of the Summer Shows in its communications to the industry (i.e., newsletters, news releases, magazines, and web sites);
- (6) Provide to N its prospect and membership list (including e-mail address and fax numbers) for N's use solely for promotion of the Summer Show to prospective exhibitors and attendees;
- (7) Participate in an advisory task force and provide services and assistance, as mutually agreed, regarding the educational portion of the Summer Show, including enlisting faculty and reviewing class proposals;

(8) Work with N to determine and develop the content of the educational program for the Summer Show, with M having final approval of the general overall design, structure, and content of the educational program for each Summer Show; and

(9) Provide to N at M's winter show, at no additional cost to N, reasonable space of M's choosing of up to 20' x 20" for N to sell space at the Summer Show.

Also pursuant to the Sponsorship Contract, N agrees to:

(1) Produce and manage the Summer Show;

(2) Pay M a sponsorship fee for each Summer Show equal to 10% of the gross revenue received as exhibitor booth fees, registration/admission, and existing educational programs for the Summer Show;

(3) Pay M 50% of the net profit (defined as revenues minus cost of sales) from any new educational programs;

(4) Provide to M at the Summer Show, at no additional cost to M, reasonable space of N's choosing of up to 20' x 20' for M to solicit memberships and sell space in M's winter show;

(5) Permit M to display in the headquarters hotel and exhibition hall banners provided by M that have been coordinated and arranged with N in advance on a reasonable basis;

(6) Accept M's membership applications (new and renewal) and dues on-site at each Summer Show, and forward M's membership applications and dues to M after each Summer Show;

(7) Provide at the headquarters hotel of the Summer Show one complimentary hotel sleeping room each for M's Executive Director and for the Chair, up to two additional rooms offered at the negotiated staff rate, and two complimentary meeting rooms for M's use as requested in advance by its Executive Director;

(8) Cause M's name and/or logo to be used on promotional materials and onsite signage for the Summer Show;

(9) Provide the members of M with discounted admittances to the Summer Show and to the educational sessions held in conjunction with the Summer Show;

(10) Provide at no charge up to ten pages in the Official Summer Show Directory for individual photos and listing of the Board of Directors of M as well as a listing of the committee members, membership information, and welcome letter(s);

(11) Enter into all contracts for production of the Summer Show in its name only, and not on behalf of M, as the owner and producer and bear the expenses therefore;

(12) Prepare and submit regular status reports to include a breakdown

of confirmed exhibitors and exhibit booths on hold;

(13) Obtain, carry and keep in force a policy of comprehensive general liability and property damage insurance , as well as employee practices liability insurance and workers' compensation insurance, all with M named as additional insured;

(14) Arrange and hold a meeting between M's Executive Director and N at least nine months prior to each Summer Show to discuss affordability to exhibitors and attendees, physical presentation, image, marketing, and overall flavor of the Summer Show, as well as to review the educational component, determining any new educational content and development of a budget for any new educational programs;

(15) Permit M to review/audit N's books and records relating to revenues from exhibit booth sales, registration/admission, and existing and new educational programs for the Summer Show; and

(16) Prepare an accounting of income from exhibitor booth, registration/admission, and existing educational programs within 90 days of each Summer Show's closing.

M states that its relationship with N is purely contractual. N has no role in the management of governance in M, nor is N even a member of M.

M requests a ruling that the Sponsorship Contract does not violate M's status under section 501(c) (6) of the Code.

Section 501(c) (6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 511(a) of the Code imposes a tax on the unrelated business taxable income of organizations described in section 501(c).

Section 512(a) (1) of the Code defines the term "unrelated business taxable income" as the gross income derived by any organization from any unrelated trade or business regularly carried on by it, less certain allowable deductions and modifications.

Section 513(a) of the Code defines the term "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of the function constituting the basis of its exemption.

Section 513(c) of the Code provides that for purposes of this section, the term "trade or business" includes any activity which is carried on for the production of income from the sale of goods or the performance of services. For purposes of the preceding sentence, an activity does not lose identity as a trade or business merely because it is carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which may, or may not, be related to the exempt purposes of the organization. Where an activity carried on for profit

constitutes an unrelated trade or business, no part of such trade or business shall be excluded from such classification merely because it does not result in profit.

Section 513(d) (1) of the Code provides, in part, that the term "unrelated trade or business" does not include qualified convention and trade show activities of an organization described in section 513(d) (3) (C).

Section 513(d) (3) (A) of the Code provides that the term "convention and trade show activity" means any activity of a kind traditionally conducted at conventions, annual meetings, or trade shows, including, but not limited to, any activity one or the purposes of which is to attract persons in an industry generally (without regard to membership in the sponsoring organization) as well as members of the public to the show for the purpose of displaying industry products or to stimulate interest in, and demand for, industry products or services, or to educate persons, engaged in the industry in the development of new products and services or new rules and regulations affecting the industry.

Section 513(d) (3) (B) of the Code provides that the term "qualified convention and trade show activity" means a convention and trade show activity carried out by a qualifying organization described in section 513(d) (3) (C) in conjunction with an international, national, State, regional, or local convention, annual meeting, or show conducted by an organization described in section 513(d) (3) (C) if one of the purposes of such organization in sponsoring the activity is the promotion and stimulation of interest in, and demand for, the products and services of that industry in general or to educate persons in attendance regarding new developments or products and services related to the exempt activities of the organization, and the show is designed to achieve such purpose through the character of the exhibits and the extent of the industry products displayed.

Section 513(d) (3) (C) of the Code provides that the term "qualifying organization" means an organization described in section 501(c) (3), (4), (5), or (6) which regularly conducts as one of its substantial exempt purposes a show which stimulates interest in, and demand for, the products of a particular industry or segment of such industry or which educates persons in attendance regarding new developments or products and services related to the exempt activities of the organization.

Section 1.501(c) (6)-1 of the Income Tax Regulations provides, in part, that a business league under section 501(c) (6) of the Code is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.

Section 1.513-3(a) (1) of the regulations provides, in part, that convention and trade show activities carried on by a qualifying organization in connection with a qualified convention or trade show will not be treated as unrelated trade or business. Consequently, income from qualified convention and trade show activities, derived by a qualifying

organization that sponsors the qualified convention or trade show, will not be subject to the tax imposed by section 511.

Section 1.513-3(b) of the regulations provides, in part, that a convention or trade show activity, as defined in section 513(d) (3) (A) of the Code and section 1.513-3(c) (4), will not be considered unrelated trade or business if it is conducted by a qualifying organization.

Section 1.513-3(c) (1) of the regulations provides that under section 513(d) (3) (C) of the Code, a qualifying organization is one which is described in either section 501(c) (5) or (6), and regularly conducts as one of its substantial exempt purposes a qualified convention or trade show.

Section 1.513-3(c) (2) of the regulations provides, in part, that the term qualified convention or trade show means a show that is conducted by a qualifying organization. At least one purpose of the sponsoring organization in conducting the show is the education of its members.

Rev. Rul. 58-224, 1958-1 C.B. 242, holds that an organization which operates a trade show as its sole or principal activity primarily for the purpose of rendering particular services to individual persons is not entitled to exemption from federal income tax as an organization described as a business league in section 501(c) (6) of the Code. The organization's sole activity consists of the staging of an annual merchandise show under the sponsorship of the chamber of commerce. The show, for the most part, consists of exhibits by manufacturers. The organization publishes a buyer's guide which it furnishes free to each exhibitor and retailer. The buyer's guide shows the name of each exhibitor, the type of merchandise on display, and the location of the exhibit, and stresses the economy and convenience of making all purchases of merchandise under one roof. Admittance is by reservation only and the general public is excluded from the show. The organization's expenditures include advertising, promotion, banquets, entertainment, rent of hotel space for exhibits, and other operating expenses. The revenue ruling finds that the organization is organized and operated for the most part by individuals who are salesmen and/or distributors. Its advertising appears to be directed toward potential retailers and to stress the advantages of making all purchases of merchandise under one roof. The income is derived principally from manufacturers and distributors, most of whom appear not to be members of the organization. The revenue ruling concludes that the activities of the organization substantially serve the exhibitors and retailers as a convenience and economy in the conduct of their businesses, and that the organization is rendering particular services for individual persons as distinguished from the improvement of business conditions generally.

Rev. Rul. 67-219, 1967-2 C.B. 210, distinguishes Rev. Rul. 58-224, supra, and discusses trade shows where the object is the promotion and stimulation of interest in and demand for the industries' products and services in general, and which are conducted in a manner reasonably calculated to accomplish that objective, and not merely to promote the individual products of the exhibitors. The improvement of business conditions of one or more lines of business through promotion of interest in and stimulation of demand for industry products in general is one of the purposes for which exemption is recognized under section 501(c) (6) of the Code. A trade show accomplishes this purpose when the principal effect of the exhibition of products and services is the promotion and

stimulation of interest in and demand for the exhibited lines of products and services, rather than merely being conducted to provide exhibitors a mart or facility for making sales of their products or services to persons attending the show.

Rev. Rul. 78-240, 1978-1 C.B.N. 170, holds that a business league exempt under section 501(c)(6) of the Code that receives reasonable compensation for sponsoring and endorsing an international commercial trade show, which is not a sales facility and at which the league performs educational and supporting services, is not engaged in unrelated trade or business under section 513. The revenue ruling concludes that by planning and staffing educational portions of the show, the business league contributes importantly to the accomplishment of its own exempt purposes. Since the show as a whole stimulates interest in and demand for services of the professional while educating members on matters of professional interest, and because the league's endorsement of the show attracts to the event more members of the profession and the public, enhancing the show's educational and demand-creating impact, the activity is considered to be substantially related to the accomplishment of the league's exempt purpose.

Activities that promote demand for industry products and services, like other advertising activities, generally would constitute "trade or business" under section 513(c) of the Code if carried on for the production of income. Section 513(d) is a narrow exception to what constitutes "unrelated trade or business" under section 513(a). The activities described in section 513(d)(3) are specifically excepted from the definition of unrelated trade or business because they are conducted by a qualifying organization in furtherance of its exempt purposes and in connection with a convention, annual meeting, or trade show. The term "convention, annual meeting, or trade show" as used in section 513(d)(3) refers to a specific event at which individuals representing a particular industry and members of the general public gather in person at one location during a certain period of time. Not only must the activities be conducted at a "convention, annual meeting, or trade show," but the character of the exhibits and the extent of the industry products displayed at the show must be designed to stimulate interest in, and demand for, the products and services of the industry in general or to educate persons in attendance regarding new developments or products and services related to the exempt activities of the organization. It is the nature of the activities and their connection to a specific convention, annual meeting, or trade show that distinguishes "qualified convention and trade show activity" within the meaning of section 513(d)(3) and the regulations from other types of advertising and promotional activities conducted by organizations described in section 501(c)(6).

M has shown that its activities with regard to the Summer Show and the Sponsorship Contract are to promote and stimulate interest in and demand for the m products, and are conducted in a manner reasonably calculated to accomplish that objective. M's activities do not merely promote the individual m products or provide exhibitors a mart or facility for making sales of their products as discussed in Rev. Rul. 58-224, supra. M's activities with regard to the Summer Show are substantially related to its exempt purposes under section 501(c)(6) of the Code, and are substantially similar to the organization described in Rev. Rul. 67-219, supra. This is shown under the Sponsorship Contract, which specifically provides for M's determination and development of the content of the educational program

for the Summer Show, enlisting faculty and reviewing class proposals, and having the final approval of the general overall design, structure, and content of the educational program. The fact that M receives reasonable compensation for endorsing and sponsoring the Summer Show is not a bar to the activity under section 501(c)(6) as discussed in Rev. Rul. 78-240, supra.

Accordingly, based on the facts and circumstances presented, we rule that the Sponsorship Contract does not disturb M's status under section 501(c)(6) of the Code.

This ruling is based on the understanding that there will be no material changes in the facts upon which it is based. Any such change should be reported to the Ohio Tax Exempt and Government Entities (TE/GE) Customer Service office. Because it could help resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records. A copy of this ruling is being forwarded to the Ohio TE/GE Customer Service office.

Except as we have specifically ruled herein, we express no opinion as to the consequences of these transactions under the cited provisions or under any other provisions of the Code.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Manager, Exempt Organizations
Technical Group