

JUL 23 1981

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The information submitted indicates that you were incorporated on [REDACTED] pursuant to the provisions of the State of [REDACTED] Non-profit Corporation and Cooperative Association Act. The organization operated as a for-profit corporation, [REDACTED], until sometime in [REDACTED] when the corporate charter was involuntarily forfeited, which was not known by the corporate officers until sometime in [REDACTED]. Your application indicates that federal income tax returns (Form 1120) have been filed for fiscal years ending [REDACTED] through [REDACTED].

Article IV of your Articles of Incorporation state, in part: "The purposes for which this Corporation is organized are to act as a business league, to enhance and develop the art of knifemaking and the collecting, use and exhibiting of knives, to assist in development and dissemination of technical information regarding every aspect of knives and knifemakers, collectors, and exhibitors, to encourage, coordinate and sponsor trade shows and meetings,..."

Article V of your Articles of Incorporation states: "This Corporation shall have members. The number of members, the conditions for admission as a member, and the conditions for continued membership, the rights of the members, the imposition of dues, assessments or other charges, the classes of members and their voting rights, and all provisions relating to or restricting the transfer of memberships, shall be set forth and governed by such by-laws as are adopted by the Corporation."

Article II of the Bylaws effective [redacted] describe six classes of membership. A summary of the Bylaws and other information presented with your application relating to membership in the organization includes:

(1) Voting Members

Serve two years as Probationary Members; shall display knives at least one annual show during a three year period following election to Voting Membership; currently have [redacted] Voting Members; annual dues, \$[redacted].

(2) Probationary Members

Must apply for membership; must be engaged in the making of benchmade knives for sale to the public; must offer a printed catalog of his knives; must be recommended by four Voting Members in good standing; must attend and display knives at the second annual show following election to Probationary Membership; must not claim to be a member of [redacted] in his advertising; currently have [redacted] Probationary Members; annual dues, \$[redacted]; Probationary Members do not have voting rights.

(3) Though not knifemakers, are actively engaged in related trades; must apply for membership directly to [redacted] President, including photographs and printed materials describing their trade; shall not have voting rights; are required to attend any specific number of meetings/shows; currently have [redacted] Associate Members; annual dues, \$[redacted].

(4) Honorary Members

Not required to make application; reserved for those who advance the purpose of [redacted] sponsored by a Voting Member or a Probationary Member in good standing; do not pay dues; do not have voting right; knifemakers are not eligible for this class of membership; current membership is 1167.

Honorary Members are permitted to buy, sell, or trade knives at [redacted] shows or [redacted] sanctioned shows provided they have rented space.

(5) Knifemaker Emeritus

Reserved for knifemakers who have attained voting status but are no longer able to make knives and are not continuing in the knife business; current membership, [redacted]; no dues; no voting rights.

(6) Founding Members

Reserved class for [redacted] founders; do not pay dues; third year display requirement waived; has voting privileges; current membership, [redacted]

Total membership, all classes, is currently [redacted] or [redacted], have voting rights. Dues paying members ([redacted] Voting Members, [redacted] Probationary Members and [redacted] Associate Members) paid \$ [redacted] in fiscal period ending [redacted], representing [redacted] of total revenues received for the same period.

In addition to the dues, other sources of revenue for the period shown were:

Table Fees at [redacted] Shows	\$ [redacted]	[redacted]
Dues from Members (above)	[redacted]	[redacted]
Sale of [redacted] Merchandise	[redacted]	[redacted]
Cafe Receipts	[redacted]	[redacted]
Newsletters	[redacted]	[redacted]
Late Fees	[redacted]	[redacted]
Miscellaneous	[redacted]	[redacted]
Total	\$ [redacted]	100.0%

Total Expenses related to the period ending [redacted] amounted to [redacted] consisting of:

Expenses attributed to activities related to exempt purposes	\$ [redacted]
Depreciation	[redacted]
Other Expenses:	[redacted]
Total	\$ [redacted]

Advertising (\$ [redacted]), show Expense (\$ [redacted]), Cost of [redacted] Sales (\$ [redacted]) and Newsletter Expense (\$ [redacted]) amount for [redacted] of exempt purpose expense and [redacted] of Total Expense. Life Insurance (\$ [redacted]), Professional Fees (\$ [redacted]) and Services to [redacted] (\$ [redacted]) amount for [redacted] of Other Expense and [redacted] of Total Expense.

You have indicated: "Only voting members are eligible to be covered by a [redacted] life insurance policy. [redacted] pays the annual premiums. In case of a partnership, [redacted] will pay the premium for only one member. The other member of the partnership may be covered if he pays the premium for same." You further explained, "The members pay for their insurance individually and as a part of the amount paid as membership dues for the payment of life insurance premiums or whether there was a reduction in annual dues for those voting members who do not enroll in the program."

Your principle activity is an annual membership meeting and knife show. Secondary activity is a publication, [redacted] Newsletter, which is published in August, October, February and June. An analysis of three issues published in [redacted] (June, August and October) revealed that [redacted] of the material was related to the annual kniveshow of [redacted] or similar organizations knife shows; [redacted] of the material was educational in nature. Most of the published material presented with the application was for periods prior to date of incorporation, [redacted], and was more related to the defunct for-profit organization.

The [redacted] Show was held in [redacted] from [redacted]. Advertising for the event included statements such as:

[redacted] is recognized as the finest knife show in the world, with [redacted] members displaying cutlery ranging in price from \$[redacted] to thousands of dollars. Meet the greatest artisans in steel ever gathered under one roof. Handcrafted knives for the sportsman, collector and investor."

[redacted] business conducted during the three day show included:

8:00 A.M., Saturday	[redacted]	Hazardous Material Seminar
8:00 P.M., Saturday	[redacted]	Business Meeting
8:00 A.M., Sunday	[redacted]	Church Services

A seminar was proposed for a Yoga session to relieve stress but it is not known if one was conducted or not.

Internal Revenue Code 501(c)(6) provides for the exemption of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues (whether or not administering a pension fund for football players), which are not organized for profit and are part of the net earnings of which inure to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations states, in part:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest... it is an organization of the general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons."

Code section 513(d), added to the Code by section 1305 of the Tax Reform Act of 1976, provides that qualified convention and trade show activities conducted by an organization described in Code section 501(c)(5) are not unrelated trade or business activities if certain requirements are met.

A qualified convention or trade show activity includes any activity designed to attract persons to an industry show for the purpose of displaying industry products, 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 matters affecting the industry when the event is sponsored by a qualifying organization.

A qualifying organization is one described in Code section 501(c)(3) or 501(c)(6), which regularly conducts, as one of its substantial exempt purposes, a show that stimulates interest in, or demand for, the products and services of the particular industry.

If a convention or trade show activity is not unrelated trade or business by reason of Code section 513(d), it is also an exempt activity of the particular IRC 501(c)(5) or (c)(6) organization.

However, Code section 513(d), which revoked or made obsolete many of the earlier Revenue Rulings does not affect the holding of Revenue Ruling 58-224, 1958-1 C.B. 242, which states:

"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 Internal Revenue Code of 1954."

Based on the information submitted by your organization, we have determined that you do not meet the requirements for exemption under section 501(c)(6) of the Internal Revenue Code because you perform particular service for your members and others, you do not improve or promote one or more lines of business other than bringing buyers and sellers together to increase members sales.

Accordingly, you are required to file income tax return on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

[REDACTED]

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

[REDACTED]
District Director

Enclosures:
Publication 892
Form 6018

cc: [REDACTED]