

The management of health and welfare plans for a fee by a business league exempt under section 501(c)(6) of the Internal Revenue Code of 1954 is an unrelated business within the meaning of section 513 of the Code.

Advice has been requested whether the management of health and welfare plans for a fee by a business league exempt under section 501(c)(6) of the Internal Revenue Code of 1954 is an unrelated business within the meaning of section 513 of the Code.

The organization is composed of firms in a particular industry. Its purpose and principal activity is to represent such firms in all matters pertaining to their relations with labor and labor unions. The organization also regularly manages health and welfare plans for its members. It receives a fixed fee for each employee covered by a plan. Significant amounts of its income and expenses are attributable to the management of these plans.

Section 513 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 of funds or the use it makes of the profits derived) to the exercise or performance by such organization of its exempt functions.

The management of health and welfare plans under the circumstances described, including the performance of the services connected therewith, constitutes a business not substantially related to the functions forming the basis for the exemption of the organization.

Accordingly, the management of the health and welfare plans by the organization constitutes the conduct of an unrelated trade or business within the meaning of section 513 of the Code, and the organization is subject to the tax imposed by section 511 of the Code, as computed under section 512, on the income from such activity.