

The Internal Revenue Service discusses the circumstances under which the income from the conduct of an industry trade show by an organization exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 will not be subject to the tax imposed by section 511 of the Code.

Revenue Ruling 58-224, C.B. 1958-1, 242, distinguished.

The Internal Revenue Service has considered the question whether income derived by organizations described in section 501(c)(6) of the Internal Revenue Code of 1954 from conduct of trade shows of the type discussed herein is gross income derived from conduct of unrelated trade or business for purposes of imposition of the tax on unrelated business taxable income under section 511 of the Code.

The trade shows in question are those commonly conducted by trade associations in which members of an industry, and sometimes members of related industries, join in an exhibition of the products and services of their industries or lines of businesses.

The shows may be directed to the public or to the particular customer classes of the industries or lines of businesses involved. Their object is the promotion and stimulation of interest in and demand for the industries' products and services in general.

The shows are conducted in a manner reasonably calculated to accomplish that objective, and not merely to promote the individual products of the exhibitors. They are not conducted to provide exhibitors a mart or facility for making sales of their products or services to persons attending the shows. In this respect, they are distinguishable from the type of function or show dealt with in *Men's and Boys' Apparel Club of Florida v. United States*, 168 Ct.Cl. 147 (1964), and in Revenue Ruling 58-224, C.B. 1958-1, 242, in which the activities involved were held to be for the direct economic benefit of individuals rather than for the improvement of business conditions for the industry generally.

The shows here in question are usually promoted by business leagues or trade associations composed of members of the particular industry or line of business principally involved. As sponsors and promoters, the organizations undertake the planning, promotion, and direction of the shows. They secure the necessary space and facilities, solicit and contract for the participation of exhibitors, arrange for special events or affairs within the shows, and direct the publicity connected with the shows. Income is derived principally from charges for exhibit privileges and admission. Although the exhibitors may include business concerns which are not members of the sponsoring organizations, the nonmembers are charged the same rates as members are charged for equivalent space or privileges. The receipts are used to defray

the costs of operating the shows. Any profits are devoted to furthering the sponsoring organizations' exempt purposes.

Typically, the exhibitions or shows are composed of exhibits or displays of the products and services of the individual exhibitors. The exhibits are ordinarily accompanied by various promotional materials relating to the particular products and services being displayed. Representatives of exhibitors are usually present to answer questions, discuss problems, and explain the products or services to viewers. They are not present, however, to sell or take orders for goods or services. Where a show is directed to the general public, various inducements, such as entertainment and prizes, are sometimes added to the show to stimulate attendance. Also, there are often concessions, such as refreshment stands, to provide conveniences and other incidental services for the viewers.

An important aspect of these shows is that the manner in which they are conducted, the character of the exhibits, and the extent of industry representation are such that the resulting exhibitions are reasonably representative of the products of one or more lines of business.

Section 511 of the Code imposes a tax upon unrelated business taxable income of certain organizations otherwise exempt from Federal income tax under section 501. Organizations exempt under section 501(c)(6) of the Code are among the classes of organizations subject to the tax.

The term 'unrelated business taxable income' is defined in section 512 of the Code, with certain exceptions, additions, and limitations, as the gross income derived by any organization from any unrelated trade or business regularly carried on by it, less allowable deductions directly connected with the carrying on of such trade or business. 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 or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function forming the basis for its exemption under section 501 of the Code.

On the facts presented, the principal consideration is whether gross income from conduct of trade shows of the type in question derives from conduct of unrelated trade or business. The controlling question in that regard is whether the activities productive of such income are substantially related to the accomplishment of the purpose for which the organizations involved are granted exemptions under section 501(c)(6) of the Code, aside from the need for or the use made of the profits derived.

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 granted organizations under section 501(c)(6) of the Code. See section 1.501(c)(6)-1 of the Income Tax Regulations.

Although a certain amount of identification of particular products with the individual exhibitors is necessarily present, the principal effect of the exhibition of products and services in the manner described is the promotion and stimulation of interest in and demand for the exhibited lines of products and services in general. In that respect such exhibitions promote the common business interests and improvement of business conditions of the industries or lines of businesses involved.

The activities involved in presenting the shows, therefore, are substantially related to the accomplishment of purposes for which exemption is granted under section 501(c)(6) of the Code. Accordingly, amounts realized from such activities do not constitute gross income derived from conduct of unrelated trade or business for purposes of imposition of tax under section 511 of the Code.