

Consulting services are performed for local businesses on matters relating to securing housing for their minority group employees by an organization exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954. Held, such services do not constitute unrelated trade or business within the meaning of section 513 of the Code.

An organization exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954 has asked whether the performance for a fee of consulting services for local businesses relating to securing housing for their minority group employees constitutes unrelated trade or business within the meaning of section 513 of the Code.

The organization conducts charitable and educational programs that foster and promote fair housing in a metropolitan area. It endeavors to establish a climate conducive to the acceptance of minority groups in the community.

Area employers endeavor to hire minority group members to comply with federal and state fair employment laws. One of the major obstacles to such employment is the inability of the employer to find suitable housing for its minority group employees. This is particularly true for suburban employers since such housing is scarce in these areas.

In addition to its charitable and educational programs relating to minority group housing and in an effort to solve the problem indicated above, the organization enters into agreements with local businesses for housing referral services. These services include counselling employees seeking housing; preparing and making available to the employer listings of open housing; and advising employers on what steps they can take to establish open housing in the community. Each employer pays an annual fee depending upon the number of employees involved.

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 constituting the basis for its exemption under section 501 of the Code.

Section 1.513-1(d)(2) of the Income Tax Regulations provides that a trade or business is 'related' to exempt purposes only where the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income); and it is 'substantially related,' for purposes of section 513, only if the casual relationship is a substantial one. Thus, for the conduct of a 'trade or business' to be substantially related to purposes for

which exemption is granted, the production or distribution of the goods or the performance of the services must contribute importantly to the accomplishment of those purposes.

The above-described services contribute importantly to the accomplishment of the organization's charitable and educational purposes to foster and promote fair housing. Thus, such services are substantially related to the purpose constituting the basis for the organization's exemption. Accordingly, the performance of these services does not constitute unrelated trade or business within the meaning of section 513 of the Code.