

An association of retail food merchants exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 that regularly carries on as a minor portion of its activities a coupon redemption service for its members is engaged in unrelated trade or business as defined in section 513 of the Code.

Advice has been requested whether the regular operation of a coupon redemption service by a business league exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 is unrelated trade or business as defined in section 513 of the Code.

The business league, composed of retail food merchants in a particular state, promotes the common business interests of its members. As a minor portion of its activities the league operates a coupon redemption service as described below.

Manufacturers, producers, and distributors of items sold in members' stores frequently issue coupons entitling purchasers to a discount on a particular product. These coupons are redeemed by members of the organization who in turn must forward the coupons to the issuer for reimbursement. Instead of presenting the coupons to each issuer, the member sends them to the organization. The organization pays the member the face value of the coupons less a service fee, accumulates the coupons, and presents them to the individual issuers for reimbursement.

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 exempt function.

Section 1.513-1(b) of the Income Tax Regulations provides that the term 'trade or business' generally includes any activity carried on for the production of income from the sale of goods or performance of services.

Section 1.513-1(d) of the regulations provides that a trade or business is considered 'related' only if the production or distribution of the goods or the performance of the services from which the gross income is derived contributes importantly to the accomplishment of the purposes for which exemption was granted.

Section 1.501(c)(6)-1 of the regulations provides that the activities of a business league 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.

The exemption of a business league is based on the fact that it promotes a common business interest and does not perform particular services for individual persons. The coupon redemption service provided by this organization does not contribute importantly to the promotion of a common business interest. Rather, the activity is the performance of services for individual members for a fee. Further, the service is regularly carried on and is conducted for the production of income. Therefore, the coupon redemption service constitutes the conduct of unrelated trade or business within the meaning of section 513 of the Code.