

Unrelated trade or business; bar association; sale of standard legal forms. The sale at a profit of standard legal forms to its members by a local bar association that is exempt under section 501(c)(6) of the Code is an unrelated trade or business within the meaning of section 513.

Advice has been requested whether, under the circumstances described below, the sale of standard legal forms by a local bar association exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 is unrelated trade or business within the meaning of section 513.

The purposes forming the basis of the association's exemption under section 501(c)(6) of the Code are the protection and advancement of the professional interests of its members, the advancement of justice and the science of jurisprudence, and the improvement of relations between the Bench and Bar and the public, and it is principally engaged in activities in furtherance of those purposes.

As one of its activities, the association purchases standard legal forms from the state bar association and sells them to its member attorneys at a 100 percent markup on cost. These forms are also available to all attorneys through the state bar association. The state bar association updates the standard forms as statutory and case law require. The association and any other local bar association within the state may recommend appropriate changes in any of the forms to the state bar association.

Section 513(a) of the Code provides that the term 'unrelated trade or business' means any trade or business the conduct of which is not substantially related to the exercise or performance of an organization's purpose or function constituting the basis of its exemption under section 501, aside from its need for income or funds or the use it makes of the profits derived.

Section 1.501(c)(6)-1(a) of the Income Tax Regulations provides, in part, 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.

Section 1.513-1(d)(2) of the regulations provides that trade or business is 'related' to exempt purposes, in the relevant sense, 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 of the Code, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the

goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

By selling standard legal forms to its members, the association is furnishing individual members with a regular commercial service. The service does not promote the improvement of business conditions of one or more lines of business, which is the purpose for which the association is exempt from Federal income tax. Because there is no substantial causal relationship between the sale of legal forms and the achievement of the association's exempt purposes (other than through the production of income), the activity does not contribute importantly to the accomplishment of the association's exempt functions under section 501(c)(6) of the Code. See Rev. Rul. 66-338, 1966-2 C.B. 226, which denies the exemption under Section 501(c)(6) of the Code of an organization formed to promote the interests of a particular retail trade which as its principal activities advises individual members in the operation of their individual business and sells supplies and equipment to them. The Revenue Ruling holds that the organization is thereby performing particular services for individual persons as distinguished from activities aimed at the improvement of business conditions in their trade as a whole. It further holds that these two activities are businesses of a kind ordinarily carried on for profit even though they are conducted on a cooperative basis and produce only sufficient income to be self-sustaining, and cites *Indiana Retail Hardware Association v. U.S.*, 366 F.2d 998 (Ct.Cl. 1966).

Accordingly, under the circumstances described, the sale of standard legal forms by the association to its members is unrelated trade or business within the meaning of section 513 of the Code.