

Unrelated business income; sale of membership directory. The sale by an organization exempt under section 501(c)(6) of the Code of a membership directory that contributes importantly to the achievement of the organization's purpose and confers no private commercial benefit on any of the members, who are the directory's sole purchasers, does not constitute unrelated trade or business within the meaning of section 513; Rev. Rul. 74-38 distinguished.

#### ISSUE

Is the sale of a membership directory by an organization exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code, under the circumstances described below, unrelated trade or business within the meaning of section 513 of the Code?

#### FACTS

The organization, which is exempt from federal income tax under section 501(c)(6) of the Code, has a membership consisting principally of persons from throughout the United States who hold public office. Its purpose is to provide a national forum for the exchange of experience, opinions, and ideas through discussion, study, and publication on subjects of interest to the persons serving in public office. As one of its activities, the organization publishes an annual directory, containing a listing of all of its members, and including the name, address, and area of expertise of each member. The manner in which the names are presented follows a simple columnar format with each member receiving the same amount of space. The listings in the directory do not emphasize the relative importance or reputation of certain members over others, and members are not permitted to purchase over-size or specially designed listings. The directory contains no commercial advertisements and is sold only to the organization's members.

#### LAW AND ANALYSIS

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 (aside from the need of an organization for income or funds or the use it makes of the profits derived) to the exercise or performance of an organization's purpose or function constituting the basis of its exemption under section 501.

Section 1.513-1(d)(2) of the Income Tax Regulations provides that a trade or business is 'related' to exempt purposes, in the relevant sense, only where the conduct of the business activities has a 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 a 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.

If a business league's publishing activity is carried on for the private commercial benefit of the members of the organization, it is not considered a substantially related trade or business. If such private commercial benefit is present, the sale of the publication does not contribute importantly to the achievement of the organization's exempt purposes and constitutes unrelated trade or business.

In this case, publishing the directory serves to facilitate communication among the members of the organization and encourages the exchange of ideas and expertise, resulting in greater awareness of collective and individual activities of the membership. Through these exchanges the knowledge and professional abilities of the members may be increased. Further, since the directory merely lists the members in a non-commercial format, without advertising, and with all members listed in a similar fashion, and since the directory is not distributed to the public, its sale does not confer any private commercial benefit on the members. Consequently, the sale of the directory furthers the common interests of the members of the organization by providing a means to help improve their professional capabilities as public representatives. The sale of the directory contributes importantly to the accomplishment of the organization's exempt purposes and therefore, has a substantial causal relationship to the achievement of those purposes.

Rev. Rul. 74-38, 1974-1 C.B. 144, as clarified by Rev. Rul. 76-93, 1976-1 C.B. 170, which holds that the sale of space in a journal published by an organization exempt under section 501(c)(6) of the Code is unrelated trade or business where the purchaser of the space is designated by name without a further commercial message, is distinguishable because of the noncommercial characteristics of the directory here.

Compare Rev. Rul. 64-315, 1964-2 C.B. 147, which holds that an organization whose primary activity consists of publishing a newspaper advertising the merchandise and names of its member merchants is not exempt under section 501(c)(6), and Rev. Rul. 65-14, 1965-1 C.B. 236, which holds that an organization whose primary activity consists of publishing a tourist guidebook advertising the products, services, and names of member merchants is not exempt under section 501(c)(6). Unlike the organizations described in these revenue rulings, the organization described here does not sell its directory to the public; the directory is intended for the members themselves.

## HOLDING

The sale of a membership directory by an organization exempt from federal income tax under section 501(c)(6) of the Code, under the circumstances described above, is not unrelated trade or business within the meaning of section 513.