

Unrelated trade or business; senior citizens' center; beauty shop and barber shop. The operation of a beauty shop and a barber shop by an exempt senior citizens' center for use by senior citizens is not unrelated trade or business.

#### ISSUE

Is the operation of a beauty shop and a barber shop by a senior citizens' center exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, under the circumstances described below, unrelated trade or business within the meaning of section 513?

#### FACTS

The purpose of the organization and basis for its exemption under section 501(c)(3) of the Code as a charitable organization is to serve the recreational, intellectual, social, physical, and health needs of senior citizens, primarily age 65 and over. The organization has established a service center to provide information, referral, and counseling services relating to health care, housing, education, finances, and employment. In addition to providing facilities for recreational activities such as dances, picnics, and card games, the center is used as a meeting place for senior citizens. All recreational facilities are uniquely suited to the needs of the elderly. Membership in the organization is not necessary in order to obtain services or participate in its activities.

As one of its activities, the organization operates within the center a beauty shop and a barber shop. The services of the beauty shop and barber shop are available only to senior citizens. Beauticians and barbers are employed on a full-time basis. Their services are directed towards meeting the needs of senior citizens many of whom have physical impairments resulting in a limited ability to travel, and who are unable to meet fully their own needs with respect to personal grooming. Fees charged for services rendered are comparable to the fees of similar commercial beauty and barber shops.

#### LAW AND ANALYSIS

Section 513(a) of the Code generally 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 an organization for income or funds or the use it makes of the profit derived) to the exercise or performance by an organization of its exempt purposes or functions.

Section 1.513-1(d)(2) of the Income Tax Regulations states that a 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 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 from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

The senior citizens' center is exempt as a charitable organization because it provides recreational, intellectual, social, physical, and health services to senior citizens. See Rev. Rul. 75-198, 1975-1 C.B. 157, which recognizes the special needs of the aged. Providing senior citizens, many of whom have physical impairments resulting in a limited ability to travel, with the services of beauticians and barbers in a place convenient for them to reach is an activity that contributes importantly to the achievement of the organization's exempt charitable purpose. By so meeting the psychological and health needs of the elderly in the area of personal grooming, the activity is substantially related to the exempt purpose of the center.

#### HOLDING

The operation of a beauty shop and a barber shop by a senior citizens' center, under the circumstances described above, is not unrelated trade or business within the meaning of section 513 of the Code.