



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

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501.06-02  
512.07-00  
513.00-00

Employer Identification Number:

LEGEND:

X =  
Y =

a =  
b =  
c =

u =  
v =  
w =  
x =  
y =  
z =

Dear :

This is in response to X's request dated October 29, 2003, supplemented by a letter dated March 29, 2006, and modified by a letter dated October 4, 2006. X requested a ruling under section 513 of the Internal Revenue Code regarding the federal tax consequences associated with the transactions described below. The request was submitted by X's legal representative.

X is exempt from federal income tax as an organization described in section 501(c)(6) of the Code. X represents the a industry to government, media, business and consumers.

Y is a for-profit entity that owns and operates several trade shows for the a industry. The trade shows are held annually around the world, and promote and stimulate interest in the a Industry. The industry is promoted through exhibits and educational programming. The trade shows provide a gathering place for industry professionals to exchange ideas, know-how and

exhibit their wares. The educational programming provides ideas for solutions to industry problems; offers trends and innovations; and, promotes awareness of the industry legislative objectives and legal compliance imperatives. The trade shows draw a wide variety of members of the industry, and also attract many consumers of industry products. They attract approximately u attendees and approximately v exhibitors and related staff.

X and Y entered into a b Agreement and subsequently executed a c Agreement that provide the terms and conditions by which X will sponsor two of the annual trade shows conducted by Y. In its letter dated March 29, 2006, X made the following representations regarding the activities it conducts with X pursuant to the terms of the two Agreements:

1. X actively participates in two events owned by Y per year.
2. In furtherance of the trade shows, X engages in the following:
  - a. X provides pre-show publicity in its e-newsletter for the trade shows two to three months preceding the events. Links to the websites for the trade shows are embedded in the newsletter; information regarding the trade shows is provided in the newsletter and participation is encouraged; and, an X sponsored party which occurs at the trade shows is publicized. If requested by Y, X sends out e-mails to its members to promote a trade show, usually when registration for a trade show is lagging.
  - b. X and Y share exhibit space at the trade shows. X stocks its exhibit space with materials about its membership and provides members who are in need of information regarding the trade show with general assistance. X and Y collaborate on details regarding the set up the booth and on providing manpower for the booth.
  - c. X and Y co-sponsor a lounge at the trade show site which is furnished with chairs and couches for X members to unwind during the day. An X staff member serves as a hostess and food, water, coffee and tea are provided.
  - d. A trade show committee, consisting of six X members and two X board members; provides Y with advice on best practices at the trade shows, such as information on hotel transportation, the exhibits and the exhibit hall.
  - e. The trade shows are jointly managed by X and Y. X senior management attends an annual planning meeting with Y focusing exclusively on the trade shows.
  - f. X staff attends and plans a party that is provided by an X member sponsor. Y receives complimentary tickets to distribute to key buyers (those who buy large quantities of a). The purpose of the party is to bring major buyers and sellers of a together in an informal setting to enjoy the product and talk about it.
  - g. To the best of X's knowledge, no endorsement or promotion of Y occurs beyond the general promotion of the trade shows owned by Y.
3. X sends staff members to the trade shows to:
  - a. Man the X booth, promoting its membership and providing information about the industry.
  - b. Direct X staff and members to points where they can best target their support for the industry.
  - c. Interact with media to publicize the industry, new developments in the industry, and the show.
  - d. Act as hosts for the X member lounge.
  - e. Provide research, industry know-how, knowledge and experience at industry

- meetings.
- f. Meet with X members on a one on one basis to develop relationships that help X to understand the differing needs of suppliers, resellers and end-users.
  - g. Informally promote dialogue and interaction among show participants and within the overall industry.
4. Y owns an industry periodical for which it provides all copy and sells all advertising. X provides suggestions for stories; X's staff and members are often featured in it; X provides general industry and know-how to the publication; and, X provides a quarterly editorial. X has no control over the periodical's content and does not share in any of the periodical's revenues.

Y pays X a percentage of various show related revenue streams:

Exhibit space	w%
Catalog advertising	x%
Sponsorships	y%
Conferences	z%

X has requested the following rulings:

1. Payments received by X from Y under the c Agreement constitute a payment for services performed by X for Y and not "passive" royalty payments under section 512(b)(2).
2. The services performed by the X under the Agreement constitute the conduct of a qualified convention or trade show by a qualifying organization under section 513(b)(3).
3. The Space Sales Revenue, Conference Net Profit Revenue and Sponsorship Revenue received by the from substantially related to the activities of the organization, and the income therefore is not unrelated business income.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 511 of the Code generally imposes a tax on the unrelated business taxable income of organizations described in section 501(c).

Section 512(a) of the Code defines the term "unrelated business taxable income" to mean the gross income, with certain modifications, derived by any organization from any unrelated trade or business (defined in section 513) regularly carried on by it.

Section 512(b)(2) of the Code, a modification of Section 512(a), excludes all royalties (including overriding royalties), whether measured by production or by gross or taxable income from the property, and all deductions directly connected with such income from the term "unrelated business taxable income".

Section 513(a) of the Code provides that the term "unrelated trade or business" means, in the case of any organization subject to the tax imposed by section 511, any trade or business the conduct of which is not substantially related to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption.

Section 513(c) of the Code provides that the term "trade or business" includes any activity which is carried on for the production of income from the sale of goods or the performance of services. For purposes of the preceding sentence, an activity does not lose identity as a trade or business merely because it is carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which may, or may not, be related to the exempt purposes of the organization. Where an activity carried on for profit constitutes an unrelated trade or business, no part of such trade or business shall be excluded from such classification merely because it does not result in profit.

Section 513(d)(1) of the Code provides, in part, that the term "unrelated trade or business" does not include qualified convention and trade show activities of an organization described in section 513(d)(3)(C).

Section 513(d)(3)(A) of the Code defines the term "convention and trade show activity" as any activity of a kind traditionally conducted at conventions, annual meetings, or trade shows. A convention and trade show activity includes, but is not limited to, any activity one of the purposes of which is to attract persons in an industry generally (without regard to membership in the sponsoring organization) as well as members of the public to the show for the purpose of displaying industry products or to stimulate interest in, and demand for, industry products or services, or to educate persons, engaged in the industry in the development of new products and services or new rules and regulations affecting the industry.

Section 513(d)(3)(B) of the Code defines the term "qualified convention and trade show activity" as a convention and trade show activity carried out by a qualifying organization described in section 513(d)(3)(C) in conjunction with an international, national, State, regional, or local convention, annual meeting, or show conducted by an organization described in section 513(d)(3)(C) if one of the purposes of such organization in sponsoring the activity is the promotion and stimulation of interest in, and demand for, the products and services of that industry in general or to educate persons in attendance regarding new developments or products and services related to the exempt activities of the organization, and the show is designed to achieve such purpose through the character of the exhibits and the extent of the industry products displayed.

Section 513(d)(3)(C) of the Code defines the term "qualifying organization" as an organization described in section 501(c)(3), (4), (5), or (6) which regularly conducts as one of its substantial exempt purposes a show which stimulates interest in, and demand for, the products of a particular industry or segment of such industry or which educates persons in attendance regarding new developments or products and services related to the exempt activities of the organization.

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

league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. The regulation provides that organizations otherwise exempt from tax under this section are taxable on their unrelated business taxable income.

Section 1.512(b)-1 of the regulations provides that whether a particular item of income falls within any of the modifications provided in section 512(b) of the Code shall be determined by all the facts and circumstances of each case.

Section 1.513-1(d)(4)(iv) of the regulations provides that an organization in the performance of exempt functions may generate good will or other intangibles which are capable of being exploited in commercial endeavors. Where an organization exploits such an intangible in commercial activities, the mere fact that the resultant income depends in part upon an exempt function does not make it gross income from related trade or business, unless the commercial activities themselves contribute importantly to the accomplishment of an exempt purpose. The following examples illustrate this principle:

In Examples 6 and 7, gross income derived from advertising in journals published by an organization exempt under section 501(c)(6) is gross income from unrelated trade or business. Although continuing education of its members in matters pertaining to their profession is one of the purposes for which the organization is granted exemption, the publication of advertising designed and selected in the manner of ordinary commercial advertising is not an educational activity of the kind contemplated by the exemption statute; it differs fundamentally from such an activity both in its governing objective and in its method. Neither the publication of advertisements nor the performance of services for commercial advertisers contributes importantly to the accomplishment of any purpose for which the exemption is granted. Even if the advertisements promoted only products which are within the general area of professional interest of the organization's members and contained certain information, the informational function of the advertising is incidental to the controlling aim of stimulating demand for the advertised products and differs in no essential respect from the informational function of any commercial advertising.

Section 1.513-3(a) of the regulations explains that, generally, section 513(d) and section 1.513-3(b) provide that convention and trade show activities carried on by a qualifying organization in connection with a qualified convention or trade show will not be treated as unrelated trade or business. Consequently, income from qualified convention or trade show activities, derived by a qualifying organization that sponsors the qualified convention or trade show, will not be subject to the tax imposed by section 511.

Section 1.513-3(b) of the regulations provides that convention and trade show activities carried on by a qualifying organization in connection with a qualified convention and trade show will not be treated as unrelated trade or business. A qualifying organization is defined in section 1.513-3(c)(1) of the regulations as an organization described in section 501(c)(5) or (6) of the Code which regularly conducts as one of its substantial exempt purposes a qualified convention or trade show.

Section 1.513-3(c)(2) of the regulations indicates that to be a qualified convention or trade

show at least one purpose of the sponsoring organization in conducting the show must be the education of its members or the promotion and stimulation of interest in, and demand for, the products or services of the industry of the members of the qualifying organization, and the show must be designed to achieve either one of those purposes through the character of a significant portion of the exhibits or the character of conferences and seminars held at a convention or meeting.

Section 1.513-3(c)(4) of the regulations provides that convention and trade show activity means any activity of a kind traditionally carried on at such shows.

Section 1.513-3(d)(1) of the regulations states that the rental of display space to exhibitors (including exhibitors who are suppliers) at a qualified convention and trade show will not be considered unrelated trade or business even though the exhibitors who rent the space are permitted to sell or solicit orders.

Rev. Rul. 78-240, 1978-1 C.B. 170, holds that a business league exempt under section 501(c)(6) that received reasonable compensation for sponsoring and endorsing an international commercial trade show, which was not a sales facility and at which the league performed educational and supporting services, was not engaged in unrelated trade or business under section 513. In the revenue ruling, the IRS stated that the organization was formed for the purpose of encouraging the creation and adoption of trends and modern methods of the industry. Under an agreement with the producers of an international commercial trade show, the organization received reasonable compensation for sponsoring and lending its name and good will to the show and for performing certain supporting services. The organization's involvement in the trade show was limited to permitting the producer to use its name in connection with the show, promoting attendance, planning educational exhibits and demonstrations, and providing lectures for the exhibits and demonstrations. By planning and staffing educational portions of the trade show, the business league contributed importantly to the accomplishment of its own exempt purposes since the show as a whole stimulated interest in and demand for services of the professional while educating members on matters of professional interest. Furthermore, the IRS pointed out that the business league's endorsement of the show attracted to the event more members of the profession and the public, enhancing the show's educational and demand-creating impact.

Rev. Rul. 81-178, 1981-2 C.B. 135, holds that payments an exempt organization receives from a business enterprise for the use of the organization's trademark and similar properties are royalties within the meaning of section 512(b)(2) of the Code and are not taken into account in determining unrelated taxable income. However, payments the organization receives for personal services provided by its members are not royalties but are compensation for taxable income.

Rev. Rul. 2004-112, 2004-2 C.B. 985, holds that "(i)t is the nature of the activities and their connection to a specific convention, annual meeting, or trade show that distinguishes 'qualified convention and trade show activity' within the meaning of section 501(d)(3) and the regulations from other types of advertising and promotional activities conducted by organizations described in section 501(c)(6)." In the revenue ruling, several situations are presented in which activities conducted by section 501(c)(6) organizations would or would not come within the qualified trade

show or convention exception of section 513(d). Situation 1 provides an example of a "qualifying organization": it holds semi-annual trade shows which include conferences, seminars and a wide variety of exhibits sponsored by members and suppliers; it provides information that is useful to those in the industry; it takes place at a limited time, at one physical location; and, the organization's members, suppliers and potential customers meet together in person and interact face to face.

X is substantially involved in the production of two of the annual international trade shows conducted by Y, a for-profit entity. X shares in some of the revenues from the shows, which it endorses, plans and for which it provides staffing. Through its activities, X stimulates interest in the trade shows, attracting the public and its members to them. In providing services to Y in addition to its endorsement of the trade shows, the income received by X would not be excluded from its income under section 512(b)(2) as royalty income. See, also, Rev. Rul. 81-178, supra. In addition, Section 513(c) of the Code provides that, generally, activities carried on for the production of income would constitute a "trade or business". However, an exception to what constitutes an "unrelated trade or business" applies to certain activities conducted by a qualifying organization in connection with a convention, annual meeting, or trade show in furtherance of the organization's exempt purposes. Section 513(d)(3) of the Code:

X is a qualifying organization within the meaning of section 513(d)(3)(c) of the Code. In order for the shows that it co-sponsors to be qualified convention or trade shows, they must regularly be conducted by a qualified organization, with one of their purposes being to stimulate interest in and demand for the products and services of the a industry. The shows must be designed to achieve the promotional purpose through their exhibits and the extent of industry products displayed. Section 1.513-3(c)(2) of the Treas. Regs. See also, Rev. Rul. 2004-113, supra. Convention and trade show activity is defined as any activity traditionally carried on at shows. It includes activities designed to attract members and the public to view the products and services, to stimulate interest in, and demand for such products and services; to educate persons in the industry on regulations affecting the industry; and includes incidental activities such as furnishing refreshments. Section 1.513-3(c)(4) of the regulations. See also, Rev. Rul. 2004-112, supra.

X's activities, which are substantially related to X's exempt purposes, are qualified convention and trade show activities as defined in 513(d)(3)(A) of the Code and section 1.513-3(c)(4) of the regulations. See also, Rev. Rul. 2004-112, supra. X publicizes the annual trade shows during periods of time that coincide with a particular trade show. X's activities and exhibits are directed towards informing and educating its members and the public about the a industry. X engages in activities that stimulate an interest in, and a demand for, products provided by the a industry. It does so by promoting the shows, their exhibits and the educational material that is made available at the shows. X provides support services to Y at the trade shows by planning and participating in the trade shows, and by providing staffing. These activities serve to further X's exempt purposes of stimulating an interest in the industry, educating the public and X-members, and bringing members of the industry together with suppliers and potential customers. The fact that X conducts its trade show activities through sponsoring and participating in commercial trade shows with a for-profit entity does not change their nature as qualified trade show activities. Section 513(d)(3)(A) of the Code; Rev. Rul. 78-240, supra. Therefore, income X derives from the qualified trade show activity in which it

engages is excluded from taxation under section 511. Section 513(d)(1) of the Code; Section 1.513-3(a) of the regulations; Section 1.513(d)(1) of the regulations; Rev. Rul. 78-240, supra; Rev. Rul. 2004-112, supra. See also, Section 1.513-1(d)(4)(iv).

Accordingly, based upon the information furnished, we rule as follows:

1. Payments received by X from Y under the C Agreement constitute a payment for services performed by X for Y and not "passive" royalty payments under section 512(b)(2).
2. The services performed by the X under the Agreement constitute the conduct of a qualified convention or trade show by a qualifying organization under section 513(b)(3).
3. The Space Sales Revenue, Conference Net Profit Revenue and Sponsorship Revenue received by the from substantially related to the activities of the organization, and the income therefore is not unrelated business income.

This ruling applies the applicability of sections 511-513 to the facts represented above. We express no opinion as to the tax consequences of the transaction under any other provisions of the Code.

This ruling is conditioned on the understanding that there will be no material changes in the facts upon which it is based.

Please keep a copy of this ruling in your organization's permanent records.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, Notice of Intention to Disclose. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

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If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Michael C. Seto  
Manager, Exempt Organizations  
Technical Guidance and Quality  
Assurance Group 1

cc: POA