TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

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Contact Person:

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UIL: 501.06-00; 511.00-00; 512.00-00; 513.00-00

Legend:

b =
c =
d =
M =
N =
O =
P =
Q =
R =
S =
T =
Year 1=
Year 2 =
Year 3=

Dear :

We have considered your letter dated March 9, 2011 (as supplemented by your letters dated May 21, 2012, February 28, 2013, and May 31, 2013) in which you request rulings on the applicability of § 501(c)(6) and the unrelated business income tax under §§ 511-513 to the activities described below.

Facts

M is a trade association that is organized as a not-for-profit corporation under state law. M is exempt from federal income tax as an organization described in § 501(c)(6) of the Internal Revenue Code (the "Code"). Members of M include professional d, c administrators and general managers, and others directly employed in the b industry.

M's mission is to promote the enjoyment and involvement in the game of b, and to contribute to the growth of the game by providing services to b professionals and the industry overall. M will accomplish its mission by enhancing the skills of its professionals, and by enhancing the opportunities available to amateurs, the general public, and industry employers and manufacturers.

M is responsible for, and owns the rights to conduct, prominent b events and tournaments such as P, Q, R, and S (individually and collectively, the "T"). P and Q are annual b events, both of which attract large numbers of in-person spectators and significant media coverage. Before Year 1, P and Q were operated by a wholly-owned taxable subsidiary of M. In Year 1, the Internal Revenue Service (the "Service") ruled that the transfer to, and subsequent operation by, M of P and Q would not give rise to unrelated business taxable income. After the Year 1 ruling, M assumed control of P and Q.

R is a biennial b event. Like P and Q, R attracts large numbers of in-person spectators as well as significant media coverage. S is designed primarily for television coverage and, thus, while garnering significant media coverage, has relatively few in-person spectators.

In Year 2, M entered into an agreement with its subsidiary, O. The agreement gives O the right to provide all services related to the operation, management, and administration of the T. Under the terms of the agreement, O is entitled to retain as compensation the "net revenues" received in connection with each T conducted.

In Year 3, the rights to provide services related to operation of the T were transferred from O to N, a taxable subsidiary of M. N is currently responsible for all aspects of T events, including ticketing, marketing, advertising, travel and entertainment for the members and d, logistics (e.g., parking, sponsor banners, etc.), T site selection, conferencing facilities, lodging, etc. N also has the right to retain the profits from (or losses incurred from) the organization of the T. Nevertheless, M retains all broadcast rights to and receives all broadcast revenues from the T.

In addition to revenues from licensing of television and cable broadcast rights, each T generates revenue from, among other things:

1. Admission receipts from the viewing public;

2. Hospitality (including a percentage of the gross receipts from sales of food and beverages by authorized vendors and concessionaires to attendees); and

3. Fees paid by individuals who participate as volunteers (a portion of the fees is for uniform clothing worn at the T).

Admissions

The revenue from admissions is the money charged to members of the viewing public to enter the premises to watch the T and to gain limited access to portions of the T-hosts' facilities (e.g., bathrooms, restaurants, parking).

Food and Beverage Concessions

During the T, food and beverages are provided to spectators, volunteers, and T employees by concessionaires. The concessionaires sell food and beverages to the general public at drink stands, concession tents, and various public places in the vicinity of the T. Under its contracts with the concessionaires, N generally is entitled to a stated percentage of food and beverage income, typically between 30 and 40 percent of gross receipts.

Volunteer Operations

Much of the actual labor performed at each T is performed by volunteers. Normally, these volunteers are members or friends of members of the host c. They meet in advance of the T and receive training for various tasks.

Volunteers are required to wear uniforms while on duty during the T. Each volunteer pays a "volunteer/uniform" fee in return for which the volunteer receives a volunteer uniform, meal and water vouchers, off-site parking and shuttle service to the T, and a volunteer credential that provides him or her with access to the T site for each day of the event. Some volunteers opt to purchase additional uniform items to wear during the event so as not to have to launder the items daily.

M wishes to reacquire all rights to the T that are currently held by N.

Rulings Requested

M has requested the following rulings:

1. The reacquisition of direct control and operation of the T will not adversely affect the tax-exempt status of M as an organization described in § 501(c)(6) of the Code;

2. Income from the sale of admission tickets to the general public for admissions to the T is substantially related to M's trade or business [i.e., exempt purpose] and is not subject to taxation under § 511 of the Code;

3. Income received from sales of volunteer uniforms to tournament volunteers is substantially related to M's trade or business [i.e., exempt purpose] and is not subject to taxation under § 511 of the Code;

4. Commissions received from concessionaires at the T are not taxable as unrelated business taxable income because the provision of food and beverages to T patrons and volunteers is substantially related to M's exempt purposes; and

5. Income from the licensing of broadcasting rights with respect to the T will continue to be recognized as substantially related to the exempt purposes of M for purposes of § 511 of the Code.

Law

Section 501(a) of the Code exempts from federal income taxation organizations described in § 501(c).

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

Section 1.501(c)(6)-1 of the Income Tax Regulations (the "Regulations") 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. Thus, its activities 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. Organizations otherwise exempt from tax under this section are taxable upon their unrelated business taxable income.

Section 511 of the Code imposes a tax on the unrelated business taxable income (as defined in § 512) of various tax-exempt organizations, including organizations described in § 501(c)(6).

Section 512(a)(1) of the Code provides that the term "unrelated business taxable income" means the gross income derived by an organization from any unrelated trade or business (as defined in § 513) regularly carried on by it, less allowable deductions

which are directly connected with the carrying on of such trade or business, both computed with the modifications provided in § 512(b).

Section 513(a) of the Code provides, in relevant part, that the term "unrelated trade or business" means, in the case of any organization subject to the tax imposed by § 511, 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 charitable, educational, or other purpose or function constituting the basis for its exemption under § 501, except that such term does not include any trade or business in which substantially all the work in carrying on such trade or business is performed for the organization without compensation, or which is the selling of merchandise, substantially all of which has been received by the organization as gifts or contributions.

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, and that 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 1.513-1(a) of the Regulations provides that the term "unrelated business taxable income," as used in § 512, means the gross income derived by an organization from any unrelated trade or business regularly carried on by it, less the deductions and subject to the modifications provided in § 512. Section 513 specifies with certain exceptions that the phrase 'unrelated trade or business" means, in the case of an organization subject to the tax imposed by § 511, 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 charitable, educational, or other purpose or function constituting the basis for its exemption under § 501. Therefore, unless one of the specific exceptions of § 512 or 513 is applicable, gross income of an exempt organization subject to the tax imposed by § 511 is includible in the computation of unrelated business taxable income if: (1) it is income from trade or business; (2) such trade or business is regularly carried on by the organization; and (3) the conduct of such trade or business is not substantially related (other than through the production of funds) to the organization's performance of its exempt functions.

Section 1.513-1(b) of the Regulations provides that the primary objective of adoption of the unrelated business income tax was to eliminate a source of unfair competition by

placing the unrelated business activities of certain exempt organizations upon the same tax basis as the nonexempt business endeavors with which they compete. On the other hand, where an activity does not possess the characteristics of a trade or business within the meaning of §162 of the Code, such as when an organization sends out low-cost articles incidental to the solicitation of charitable contributions, the unrelated business income tax does not apply since the organization is not in competition with taxable organizations. However, in general, any activity of a § 511 organization which is carried on for the production of income and which otherwise possesses the characteristics required to constitute trade or business within the meaning of § 162 (and which, in addition, is not substantially related to the performance of exempt functions) presents sufficient likelihood of unfair competition to be within the policy of the tax. Accordingly, for purposes of § 513, the term trade or business has the same meaning it has in § 162, and generally includes any activity carried on for the production of income from the sale of goods or performance of services. Thus, the term trade or business in § 513 is not limited to integrated aggregates of assets, activities and good will which comprise businesses for the purposes of certain other provisions of the Code. Activities of producing or distributing goods or performing services from which a particular amount of gross income is derived do not lose identity as trade or business merely because they are 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. However, where an activity carried on for the production of income 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 1.513-1(c)(1) of the Regulations provides that, in determining whether trade or business from which a particular amount of gross income derives is "regularly carried on" within the meaning of § 512 of the Code, regard must be had to the frequency and continuity with which the activities productive of the income are conducted and the manner in which they are pursued. The requirement must be applied in light of the purpose of the unrelated business income tax to place exempt organization business activities upon the same tax basis as the nonexempt business endeavors with which they compete. Hence, for example, specific business activities of an exempt organization will ordinarily be deemed to be "regularly carried on" if they manifest a frequency and continuity, and are pursued in a manner, generally similar to comparable commercial activities of nonexempt organizations.

Section 1.513-1(c)(2)(i) of the Regulations provides that where income producing activities are of a kind normally conducted by nonexempt commercial organizations on a year-round basis, the conduct of such activities by an exempt organization over a period of only a few weeks does not constitute the regular carrying on of trade or business. For example, the operation of a sandwich stand by a hospital auxiliary for only 2 weeks at a state fair would not be the regular conduct of trade or business. However, the

conduct of year-round business activities for one day each week would constitute the regular carrying on of trade or business. Thus, the operation of a commercial parking lot on Saturday of each week would be the regular conduct of trade or business. Where income producing activities are of a kind normally undertaken by nonexempt commercial organizations only on a seasonal basis, the conduct of such activities by an exempt organization during a significant portion of the season ordinarily constitutes the regular conduct of trade or business. For example, the operation of a track for horse racing for several weeks of a year would be considered the regular conduct of trade or business because it is usual to carry on such trade or business only during a particular season.

Section 1.513-1(c)(2)(ii) of the Regulations provides that, in determining whether or not intermittently conducted activities are regularly carried on, the manner of conduct of the activities must be compared with the manner in which commercial activities are normally pursued by nonexempt organizations. In general, exempt organization business activities which are engaged in only discontinuously or periodically will not be considered regularly carried on if they are conducted without the competitive and promotional efforts typical of commercial endeavors. For example, the publication of advertising in programs for sports events or music or drama performances will not ordinarily be deemed to be the regular carrying on of business. On the other hand, where the non-qualifying sales are not merely casual, but are systematically and consistently promoted and carried on by the organization, they meet the § 512 requirement of regularity.

Section 1.513-1(c)(2)(iii) of the Regulations provides that certain intermittent income producing activities occur so infrequently that neither their recurrence nor the manner of their conduct will cause them to be regarded as trade or business regularly carried on. For example, income producing or fund raising activities lasting only a short period of time will not ordinarily be treated as regularly carried on if they recur only occasionally or sporadically. Furthermore, such activities will not be regarded as regularly carried on merely because they are conducted on an annually recurrent basis. Accordingly, income derived from the conduct of an annual dance or similar fund raising event for charity would not be income from trade or business regularly carried on.

Section 1.513-1(d)(1) of the Regulations provides that gross income derives from unrelated trade or business, within the meaning of § 513(a) of the Code, if the conduct of the trade or business which produces the income is not substantially related (other than through the production of funds) to the purposes for which exemption is granted. The presence of this requirement necessitates an examination of the relationship between the business activities which generate the particular income in question (the activities, that is, of producing or distributing the goods or performing the services involved) and the accomplishment of the organization's exempt purposes.

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 § 513, 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. Where the production or distribution of the goods or the performance of the services does not contribute importantly to the accomplishment of the exempt purposes of an organization, the income from the sale of the goods or the performance of the services does not derive from the conduct of related trade or business. Whether activities productive of gross income contribute importantly to the accomplishment of any purpose for which an organization is granted exemption depends in each case upon the facts and circumstances involved.

Section 1.513-1(d)(4)(i) of the Regulations provides examples of instances where the gross income derived from charges for the performance of exempt functions does not constitute gross income from the conduct of unrelated trade or business. In Example (1), M, an organization described in §501(c)(3), operates a school for training children in the performing arts, such as acting, singing, and dancing. M presents performances by its students and derives gross income from admission charges for the performances. The students' participation in performances before audiences is an essential part of their training. Since the income realized from the performances derives from activities which contribute importantly to the accomplishment of M's exempt purposes, it does not constitute gross income from an unrelated trade or business. In Example (3), O, an industry trade association described in § 501(c)(6), presents a trade show in which members of its industry join in an exhibition of industry products. O derives income from charges made to exhibitors for exhibit space and admission fees charged to patrons or viewers of the show. The purpose of the show is the promotion and stimulation of interest in, and demand for, the industry's products in general, and it is conducted in a manner reasonably calculated to achieve that purpose. The stimulation of demand for the industry's products in general is one of the purposes for which exemption is granted O. Consequently, the activities productive of O's gross income from the show – that is, the promotion, organization, and conduct of the exhibition – contribute importantly to the achievement of the exempt purpose, and the income does not constitute gross income from unrelated trade or business.

Rev. Rul. 58-502, 1958-2 C.B. 271, concerns an organization that is exempt under § 501(c)(6) of the Code and was formed for the purpose of promoting and conserving the

best interests and true spirit of a game as embodied in its traditions. The organization's membership is composed of regularly organized clubs throughout the United States. The organization is empowered to prescribe and enforce the rules and tests governing amateur standing, the rules for the playing of the game, and to hold each year championship tournaments and other such events. The organization acts as the authoritative national body in the arbitration of controversies and in the final determination of all questions relating to the game in the country. In addition to the membership dues it receives, the organization's income is derived from the championship tournaments it sponsors, the grant of radio and television broadcasting rights, and from the sale of booklets containing the rules of the game. The income derived from the grant of radio and television broadcasting rights is relatively insignificant in amount. The ruling states that the activities performed by the organization (the sponsorship of championship tournaments, the sale of publications relating to rules, etc.) are means for achieving the organization's primary purpose, and are directly related to the purpose for which the organization was granted exemption. The grant of radio and television rights is found to be incidental to the purposes for which the organization was granted exemption, and the income derived therefrom is not disproportionate in amount when compared to the size and extent of its tax-exempt activities. Consequently, it is held that the income derived from the operation of the championship tournaments, the sale of publications relating to rules, and the grant of radio and television broadcasting rights, is not subject to the unrelated business income tax imposed by § 511 of the Code.

Rev. Rul. 69-268, 1969-1 C.B. 160, concerns a hospital, exempt under § 501(c)(3), which operates a cafeteria and coffee shop in its main building, primarily for its employees and medical staff. This enables hospital personnel to eat on the premises so as to be available for emergency situations and other hospital duties. Persons visiting patients in the hospital are permitted to use the facilities; however the general public is not encouraged to use them. The ruling states that the maintenance of the cafeteria and coffee shop on the premises for employees and medical staff enables the hospital to operate more efficiently and thus contributes importantly to its exempt purpose. In addition, because visitation of patients constitutes supportive therapy that assists in patient treatment and recovery, permitting visitors to use the hospital cafeteria and coffee shop enables them to spend more time with the patients, thus contributing importantly to the hospital's exempt purpose. Consequently, the operation of the eating facilities does not constitute unrelated trade or business within the meaning of § 513 of the Code.

Rev. Rul. 74-399, 1974-2 C.B. 172, concerns an art museum, exempt under § 501(c)(3), that operates a dining room, cafeteria, and snack bar for use by its staff, employees, and members of the visiting public. The eating facilities are accessible from the museum's galleries and other public areas, but not directly accessible from the

street. The patronage of the eating facilities by the general public is neither directly nor indirectly solicited nor are the facilities designed to serve as a public restaurant. The ruling states that operation of the eating facilities within the museum premises helps to attract visitors to the museum exhibits and allows visitors to devote more time to the museum's collection, exhibits, and other educational facilities than would be the case if they had to interrupt or terminate their tours to seek outside eating facilities at mealtimes. In addition, the eating facilities enhance the efficient operation of the museum by enabling museum staff and employees to remain on its premises throughout the workday. Thus, the operation of the eating facilities is a service that contributes importantly to the accomplishment of the museum's exempt purposes. Accordingly, the operation of the eating facilities by the museum under these circumstances is substantially related to the museum's exempt purposes and is not unrelated trade or business within the meaning of § 513.

Rev. Rul. 80-294, 1980-2 C.B. 187, concerns an organization recognized as exempt under § 501(c)(6) of the Code that was formed to promote interest in a particular sport, to elevate the standards of the sport as a profession, and to sponsor and conduct tournaments for the encouragement of its members. The organization's membership is open to all professional players of the sport in the United States. Among its activities, the organization conducts apprentice programs, annual conventions and merchandise shows, and tournaments. Its support is derived primarily from the sale of television broadcasting rights to its tournaments. In this ruling, the organization's tournament activities are deemed to be similar to those of the organization described in Rev. Rul. 58-502, with the exception that its primary source of support is the sale of broadcasting rights. In this latter case, the sponsorship of tournaments and the sale of broadcasting rights with respect to those tournaments are found to directly promote the interest of those engaged in the sport by encouraging participation in the sport, and by enhancing the general public's awareness of the sport as a profession. The amount of income derived from the sale of broadcasting rights is not, by itself, determinative of whether the activity furthers the purposes specified in § 501(c)(6) of the Code. Thus, under the circumstances described above, sponsoring tournaments and selling broadcasting rights are activities directly related to the organization's exempt purposes, notwithstanding the amount of income it receives from those activities. Accordingly, it is concluded that an organization exempt from federal income tax under § 501(c)(6) will not adversely affect its exempt status if its primary source of support is derived from the sale of broadcasting rights to the sports tournaments it conducts. This ruling clarifies Rev. Rul. 58-502 to remove the implication that the sale of television broadcasting rights to an organization's tournaments furthers exempt purposes within the meaning of section 501(c)(6) only when the amount of income derived therefrom is insignificant in amount.

Analysis

Part 1: Exempt Status Under § 501(c)(6)

Issue:

> *Whether the reacquisition of direct control and operation of the T would adversely affect the tax-exempt status of M as an organization described in § 501(c)(6) of the Code.*

M is recognized as an organization described in § 501(c)(6) of the Code. Its mission is to promote the enjoyment and involvement in the game of b. M accomplishes its mission by enhancing the skills of its professionals and the opportunities of the general public.

Rev. Rul. 58-502 recognizes that the sponsorship and operation of championship tournaments are means by which an organization described in § 501(c)(6) and formed for the purpose of promoting and preserving a game achieves its primary purpose, and that such tournaments are directly related to the purpose for which such organizations are granted exemption. Likewise, the sponsorship and operation of the T are means of achieving M's primary purpose of promoting the game of b, and are directly related to the purpose for which M was granted exemption. Consequently, M's reacquisition of direct control and operation of the T from N would not adversely affect M's tax-exempt status as an organization described in § 501(c)(6) of the Code.

Part 2: Unrelated Business Taxable Income

Upon the reacquisition of direct control and operation of the T, M would derive income from a variety of activities conducted in conjunction with the T. M has asked us to rule on whether the gross income derived from certain of these activities would be considered unrelated business taxable income under § 512.

To be includible in the computation of M's unrelated business taxable income, the gross income must be from a trade or business the conduct of which is not substantially related (other than through the production of funds) to M's performance of its exempt functions, and such trade or business must be regularly carried on. *See* Treas. Reg. § 1.513-1(a).

Trade or Business

The income that is the subject of the various ruling requests will be derived from activities that are carried on for the production of income from either the sale of goods

or the performance of services. Thus, such income is considered income from a trade or business. *See* Treas. Reg. § 1.513-1(b).

Regularly Carried On

In determining whether a trade or business from which M derives a particular amount of gross income is "regularly carried on", consideration must be given to whether the activities that produce the income manifest a frequency and continuity, and are pursued in a manner, generally similar to comparable commercial activities of non-exempt organizations. *See* Treas. Reg. § 1.513-1(c)(1) and (2)(i). When the business activities of an exempt organization are engaged in only discontinuously or periodically, they will not be considered regularly carried on if they are conducted without the competitive and promotional efforts typical of commercial endeavors. On the other hand, where the sales are not merely casual, but are systematically and consistently promoted and carried on by the organization, they meet the definition of "regularly carried on" for purposes of § 512. *See* Treas. Reg. § 1.513-1(c)(2)(ii).

The activities from which M will derive income are integral to the conduct of b tournaments and other sports tournaments, and, as such, have no meaningfully comparable commercial counterparts outside the realm of sports competitions. Thus, the determination of whether such activities are regularly carried on depends on whether the T are considered regularly carried on when compared to other b tournaments.

Issue:

Whether the T are regularly carried on.

While there are many b tournaments held throughout the year, only a few of those tournaments are considered major b tournaments, among which are included the T. In general, the sport of b is played, and major b tournaments are held, in the Spring, Summer, and Fall of the year. The four T that M will conduct are held over the course of the seasons in which major b tournaments are played: Q in the Spring, P in the Summer, and R and S in the Fall. P, Q and S are held annually; R is held biennially. It is unlikely that any other organization, exempt or nonexempt, conducts as many as four major b tournaments in a year. Thus, under the reasoning of Treas. Reg. § 1.513-1(c)(2)(i), it could be said that the T are regularly carried on. But even if the T were considered to be conducted intermittently, it cannot be said that the activities that are integral to the T are conducted casually or without the competitive and promotional efforts typical of commercial endeavors. As major b tournaments, each T is widely, heavily, and continuously promoted in both print and online media. Each T has its own website that solicits ticket sales, sponsors, and volunteers year round. Consequently,

the T, and the activities integral to the T – ticket sales to the public, concessions, and the licensing of broadcasting rights – meet the requirements of regularity under the reasoning of Treas. Reg. § 1.513-1(c)(2)(ii).

Substantially Related

The gross income that M derives from a T-related activity would be includible in M's unrelated business taxable income only if the conduct of the trade or business that produces the income is not substantially related (other than through the production of funds) to M's exempt purpose. *See* Treas. Reg. § 1.513-1(d)(1).

M is recognized exempt from federal income tax as an organization described in § 501(c)(6). M's exempt purpose is to promote the enjoyment and involvement in the game of b and to contribute to its growth by providing services to b professionals and the b industry. M accomplishes its purpose by enhancing the skills of its professional members, and the opportunities for amateurs, employers, manufacturers, employees, and the general public. Thus, if M derives income from an activity that does not contribute importantly to the accomplishment of such purpose within the meaning of § 1.513-1(d)(2) of the Regulations, that income would be considered income from an unrelated trade or business.

Issue:

> *Whether the sale of admission tickets to the general public for admissions to the T is substantially related to M's exempt purpose.*

Example (1) under § 1.513-1(d)(4)(i) of the Regulations explains that income derived from admission charges to performances before audiences, when such performances contribute importantly to the accomplishment of the organization's exempt purposes, does not constitute gross income from unrelated trade or business. The T are performances of M's member d before audiences – performances that promote the enjoyment and growth of the game of b and contribute to the professional growth and skill of the d, thereby contributing importantly to M's exempt purposes. Therefore, income derived from admissions charges to the T does not constitute gross income from unrelated trade or business.

Furthermore, example (3) under § 1.513-1(d)(4)(i) of the Regulations explains that admissions fees charged by a section 501(c)(6) organization to patrons and viewers of a show in which members of an industry join in an exhibition of industry products for the purpose of generally promoting and stimulating an interest in, and demand for, the industry's products does not constitute gross income from an unrelated trade or business because the stimulation of demand for the industry's products is one of the

purposes for which exemption under section 501(c)(6) is granted. Similarly, the sale of tickets to the general public for admission to T at which d compete in the game of b does not constitute gross income from an unrelated trade or business, because the T stimulate interest in the game of b which is one of the purposes for which M was granted exemption under § 501(c)(6).

Issue:

Whether the sale of volunteer uniforms to T volunteers is substantially related to M's exempt purpose.

Much of the actual labor performed at each T is performed by volunteers. Volunteers are required to wear uniforms while on duty during the T. Each volunteer pays a volunteer/uniform fee in return for which the volunteer receives a volunteer uniform and credentials which give access to the grounds of the T for each day of the T.

As explained above, the conduct of the T is substantially related to M's exempt purpose because it promotes the enjoyment and involvement in the game of b and contributes to its growth. The successful conduct of the T is dependent on the work of volunteers. Just as many employers require their employees to purchase and wear uniforms while on the job, T volunteers are required to wear uniforms so that they are more identifiable to the spectators and T officials who might require their services. Furthermore, the volunteer/uniform fee includes credentials that give the volunteer access to the T site and, thus, function as the volunteer's admissions ticket to the T. Because the presence of a uniformed volunteer corps contributes importantly to the success of the T, sales of volunteer uniform packages and additional uniform items to volunteers are substantially related to M's exempt purpose, and would not be considered an unrelated trade or business within the meaning of section 513.

Issue:

Whether food and beverage concessions to T patrons and volunteers is substantially related to M's exempt purpose.

During the T, food and beverages are provided to spectators, volunteers, and T employees by concessionaires. The T further M's exempt purpose by giving the general public an opportunity to learn about, and enjoy, the game of b by watching the best d compete for the T championship. The d, in turn, are given the opportunity to display and enhance their b skills by playing before a large gallery of spectators. Therefore, the presence of spectators at a T is contributes importantly to furthering M's mission of promoting the enjoyment and involvement in the game of b.

Each day of a T lasts for much of the daylight hours. The T site is generally located far from commercial food and beverage establishments. Without food and beverage concessions on the T site, many spectators would have to cut short their attendance at the T when they became hungry or thirsty. Like the operation of the cafeteria and snack bar by the art museum described in Rev. Rul. 74-399, which allowed visitors to devote more time to the museum's collection, the operation of food and beverage concessions at the T allows spectators to devote more time to watching the d compete. In addition, like the operation of the cafeteria by the hospital described in Rev. Rul. 69-268, which enhanced the efficiency of the hospital by enabling medical staff to remain on site and be continuously available, the T concessions enhance the efficient operation of the T by enabling volunteers and T officials to remain on the T site and continuously available throughout the day. Thus, under the circumstances, the food and drink concessions contribute importantly to the success of the T, and are, consequently, substantially related to M's exempt purpose.

Issue:

> *Whether the licensing of broadcasting rights with respect to the T is substantially related to M's exempt purpose.*

Rev. Rul. 80-294 explicitly recognizes that an organization exempt under § 501(c)(6) of the Code will not adversely affect its exempt status if its primary source of support is derived from the sale of broadcasting rights to the sports tournaments it conducts, insofar as the sale of such rights directly promotes the interests of those engaged in the sport. Likewise, broadcasts of the T directly promote the interests of those engaged in the game of b by encouraging participation in the game and enhancing the public's awareness of the game of b as a profession. Consequently, the licensing of broadcasting rights with respect to the T contributes importantly to the success of the T and is, therefore, substantially related to M's exempt purpose.

Conclusion

In light of the foregoing, we rule as follows:

1. The reacquisition of direct control and operation of the T by M will not adversely affect M's tax-exempt status as an organization described in § 501(c)(6) of the Code

2. Income from the sale of admission tickets to the general public for admissions to the T is income derived from a trade or business that is substantially related to the purposes for which M was granted exemption under § 501(c)(6) of the Code,

and is not considered to be gross income from an unrelated trade or business that is taxable under § 511.

3. Income from volunteer/uniform fees and from the sale of additional uniform items to be worn by volunteers while working at the T is income derived from a trade or business that is substantially related to M's exempt purposes; therefore, such income is not considered gross income from an unrelated trade or business that is taxable under § 511 of the Code.

4. The commissions that M receives from concessionaires at the T from the provision of food and beverages to spectators, T volunteers, and T officials is income derived from a trade or business that is substantially related to M's exempt purposes; therefore, such commissions are not considered gross income from an unrelated trade or business that is taxable under § 511 of the Code.

5. The licensing of broadcasting rights to the T is substantially related to the purposes for which M was granted exemption under § 501(c)(6) of the Code; therefore, income from the licensing of broadcasting rights is not considered to be gross income from an unrelated trade or business that is taxable under § 511 of the Code.

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.

This ruling is based on the facts as they were presented and on the understanding that there will be no material changes in these facts. This ruling does not address the applicability of any section of the Code or regulations to the facts submitted other than with respect to the sections described. Because it could help resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records.

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.

In accordance with the Power of Attorney currently on file with the Internal Revenue Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

Steven B. Grodnitzky
Manager, Exempt Organizations
Technical Group 1

Enclosure
Notice 437