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October 01, 2025

Legend

Taxpayer	=
Subsidiary	=
Company	=
State 1	=
Date 1	=
Date 2	=
Year 1	=
Duration A	
Duration B	

Dear :

This letter is in reply to a letter dated June 28, 2022, and supplemental submissions dated February 15, 2023, April 26, 2024, June 2, 2025, and August 26,

2025, in which Taxpayer requests certain rulings in connection with its status as a real estate investment trust ("REIT").

Specifically, Taxpayer requests rulings that:

(1) The income derived by Taxpayer from customers under its contracts for the use of advertising space ("Rental Agreements") on outdoor advertising displays qualifies as rents from real property under Section 856(d) of the Internal Revenue Code ("Code") for purposes of section 856(c)(2) and (3) of the Code;

(2) The Services, Indirect Services, and Other Services (as defined below) will not give rise to impermissible tenant service income ("ITSI") under section 856(d) of the Code and will not cause the amounts received under Taxpayer's Rental Agreements to be excluded from treatment as rents from real property under section 856(d) of the Code; and

(3) Any amounts received as reimbursements under a cost-sharing arrangement will not be included in the reimbursed party's gross income, including for purposes of section 856(c)(2) and (3) of the Code.

FACTS

Taxpayer is a State 1 limited liability company that was formed in Year 1. Taxpayer has elected to be taxed as a REIT under sections 856 through 859 of the Code beginning with the taxable year ended Date 2.

Taxpayer, directly or through disregarded entities or partnerships, owns various types of outdoor advertising displays ("Displays"). Taxpayer represents that elections under section 1033(g)(3) are and will continue to be in effect to treat the Displays as real property for purposes of chapter 1 of the Code beginning with Taxpayer's taxable year ended Date 2, and that the Displays qualify as real property for purposes of Section 856. Some Displays have rotating panels or digital screens that enable them to display multiple advertisements in a continuous cycle ("Dynamic Displays"). Taxpayer, through disregarded entities or partnerships, also owns an interest in: (a) Subsidiary, a limited liability company that is a corporation for federal income tax purposes and that has jointly elected with Taxpayer to be a taxable REIT subsidiary ("TRS") of Taxpayer, effective as of Date 1; and (b) Company, a limited partnership that has not elected to be a corporation for federal tax purposes. (Company may be a disregarded entity of a partnership in which Taxpayer directly or indirectly holds an interest, or a disregarded entity of Taxpayer when all entities in the chain of ownership are disregarded entities of Taxpayer).

Rental Agreements

Taxpayer, directly or through disregarded entities or partnerships, enters into Rental Agreements with users ("Tenants") for the right to place advertising copy on Displays. A Rental Agreement specifies the Display or Displays on which Tenant's content will appear, the period during which the Tenant's content will appear, and in the case of Dynamic Displays, the intervals during which Tenant's content will appear. Each Rental Agreement provides for the use of the same property (the same Displays and, for Dynamic Displays, the same share of the time) for the entire term of the Rental Agreement. Each Rental Agreement provides for a fixed charge to be paid every Duration A by Tenant for the use of the specified Displays to display Tenant's advertisements ("Display Rents").

Rental Agreements generally have terms from Duration A to Duration B or longer ("Long-Term Rental Agreements"). Rental Agreements with terms shorter than Duration A ("Short-Term Rental Agreements") are sometimes used to fill available space on Displays between Long-Term Rental Agreements. Taxpayer, directly or through disregarded entities or partnerships, has agreements with businesses that match advertisers with available space on Dynamic Displays ("Intermediaries") and uses Intermediaries to sell capacity not committed under other Rental Agreements. Intermediaries use automated auctions or other processes to match an advertiser with available space for a specified period, interval, and price. Commitments with advertisers facilitated by an Intermediary are Rental Agreements for purposes of this letter (and the agreements with the Intermediaries are not). Most Rental Agreements made through Intermediaries are Short-Term Rental Agreements.

Taxpayer's business model is based on Long-Term Rental Agreements. Taxpayer's income from Short-Term Rental Agreements will comprise no more than a de minimis portion of its gross income from the rental of Displays in any taxable year. Taxpayer represents that Short-Term Rental Agreements are contracts for the use of advertising space and not for the provision of services.

Services

Taxpayer, directly or through disregarded entities or partnerships, may engage in: (a) leasing activities, (b) routine maintenance of Displays, (c) provision of lighting and electricity to Displays, and (d) provision of security for Displays (generally, video cameras not monitored in real time) (the "Services"). Taxpayer represents that the Services will be customary for the type of Displays in the geographic markets in which the Displays are located, and that the Services are not rendered primarily for the convenience of the Tenants.

A TRS compensated on an arm's length basis or an independent contractor (within the meaning of section 856(d)(3)) from which Taxpayer does not receive or derive any income will provide: (1) installation, removal and replacement of

advertisements; and (2) scheduling and management of display operations (the "Indirect Services"). The Indirect Services are activities required by the Rental Agreements. Rental Agreements may or may not separately state a charge for an Indirect Service. Taxpayer represents that the Indirect Services will be customary for the type of Displays in the geographic markets in which the Displays are located.

Taxpayer represents that any services other than the Services and the Indirect Services (the "Other Services") will not be included in Display Rents. Other Services that may be rendered to Tenants include (1) design, production, and storage of advertising materials; and (2) provision of online campaigns. Taxpayer represents that the Other Services will be performed by a TRS compensated on an arm's length basis or by an independent contractor (within the meaning of section 856(d)(3)) from which Taxpayer does not receive or derive any income.

Cost-Sharing Arrangement

Upon Subsidiary's formation, Company transferred to Subsidiary all assets necessary and primarily related to providing the Indirect Services and the Other Services. Company and Subsidiary have entered into a Services Agreement which includes an employee sharing arrangement and an equipment sharing arrangement (together, the "Cost-Sharing Arrangement"). Subsidiary uses shared employees and bears all of its own costs, including salaries and costs of equipment and supplies to provide the Indirect Services and the Other Services. The shared employees under the Cost-Sharing Arrangement are employees of Company for administrative convenience relating to matters such as insurance coverage and benefits, and so that Company and Subsidiary may avail themselves of economies of scale.

Taxpayer represents that: (a) the type of services covered by the Cost-Sharing Arrangement will not include those that Taxpayer or Company are or will be in the business of providing to third parties; (b) Company and Subsidiary will reimburse each other for their pro rata shares of expenses under the Cost-Sharing Arrangement, including their allocable share of salaries, benefits, and allocable overhead costs, as determined on an arm's-length basis; (c) reimbursements under the Cost-Sharing Arrangement are solely for cost with no mark-up; and (d) the reimbursed party under the Cost-Sharing Arrangement will not deduct or capitalize any costs reimbursed under the Cost-Sharing Arrangement.

Additional Representations

Taxpayer makes the following additional representations:

(1) For each Rental Agreement, the rent attributable to personal property does not and will not exceed 15 percent of the rent attributable to both real and personal property leased under or in connection with that Rental Agreement.

(2) No portion of the income earned under any Rental Agreement is based in whole or in part on the income or profits derived by any person from the Display(s) subject to the Rental Agreement within the meaning of section 856(d)(2)(A).

(3) No portion of Taxpayer's income from the Rental Agreements is from a person in which Taxpayer owns, directly or indirectly, an interest described in section 856(d)(2)(B)(i) or (ii). (If Taxpayer leases to a TRS or other person in which Taxpayer owns, directly or indirectly, an interest described in section 856(d)(2)(B)(i) or (ii) in the future, such lease is not a Rental Agreement for purposes of this letter ruling and Taxpayer will treat income from such lease as other than rents from real property unless the limited rental exception of section 856(d)(8)(A) is satisfied).

(4) Taxpayer does not oversell capacity on Displays.

LAW & ANALYSIS

Section 856(c) provides that a corporation is not considered a REIT for a taxable year unless at least 95 percent of its gross income is derived from categories listed in section 856(c)(2) and at least 75 percent of its gross income is derived from categories listed in section 856(c)(3) (excluding from both computations any gross income from prohibited transactions). Section 856(c)(2) and (3) both list rents from real property as qualifying income.

Section 856(d)(1) provides that (subject to exclusions in section 856(d)(2)) the term "rents from real property" includes: (A) rents from interests in real property; (B) charges for services customarily furnished or rendered in connection with the rental of real property, whether or not such charges are separately stated; and (C) rent attributable to personal property which is leased under, or in connection with, a lease of real property, but only if the rent attributable to such personal property for the taxable year does not exceed 15 percent of the total rent for the taxable year attributable to both the real and personal property leased under, or in connection with, such lease.

Section 1.856-4(a) of the Income Tax Regulations provides that the term "rents from real property" means, generally, the gross amounts received for the use of, or the right to use, real property of the REIT.

Section 1.856-10(b) defines "real property" as land and improvements to land. Section 1.856-10(d) defines "improvements to land" as inherently permanent structures and their structural components. Section 1.856-10(d)(2)(iii)(B) provides that outdoor advertising displays for which an election has been properly made under section 1033(g)(3) are inherently permanent structures and, thus, real property for purposes of part II, subchapter M, chapter 1 of the Code.

Section 856(d)(2)(A) provides that, subject to certain exceptions, the term rents from real property does not include any amount received or accrued, directly or

indirectly, with respect to any real or personal property, if the determination of such amount depends in whole or in part on the income or profits derived by any person from such property (except that any amount so received or accrued shall not be excluded from the term “rents from real property” solely by reason of being based on a fixed percentage or percentages of receipts or sales).

Section 856(d)(2)(B) provides that, except as provided in section 856(d)(8), the term “rents from real property” does not include any amount received or accrued directly or indirectly from any person if the REIT owns, directly or indirectly (i) in the case of any person which is a corporation, stock of such person possessing 10 percent or more of the total combined voting power of all classes of stock entitled to vote, or 10 percent or more of the total value of shares of all classes of stock of such person; or (ii) in the case of any person which is not a corporation, an interest of 10 percent or more in the assets or net profits of such person.

Section 856(d)(2)(C) provides that the term rents from real property does not include any ITSI. Section 856(d)(7)(A) defines ITSI to mean, with respect to any real or personal property, any amount received or accrued directly or indirectly by the REIT for services furnished or rendered by the REIT to the tenants of such property, or for managing or operating such property. Section 856(d)(7)(B) provides that, if the amount described in section 856(d)(7)(A) with respect to a property for any taxable year exceeds one percent of all amounts received or accrued during such taxable year directly or indirectly by the REIT with respect to such property, the ITSI of the REIT with respect to the property shall include all such amounts.

Section 856(d)(7)(C)(i) provides that for purposes of section 856(d)(7)(A), services furnished or rendered, or management or operation provided, through an independent contractor from whom the REIT itself does not derive or receive any income or through a TRS of such REIT shall not be treated as furnished, rendered, or provided by the REIT. Section 856(d)(7)(C)(ii) provides that ITSI shall not include any amount which would be excluded from unrelated business taxable income (“UBTI”) under section 512(b)(3) if received by an organization described in section 511(a)(2).

Section 512(b)(3) provides, in part, that rents from real property generally are excluded from the computation of UBTI. Section 1.512(b)-1(c)(5) provides that payments for the use or occupancy of rooms and other space where services are also rendered to the occupant, such as for the use or occupancy of rooms or other quarters in hotels, boarding houses, or apartment houses furnishing hotel services, or in tourist camps or tourist homes, motor courts or motels, or for the use or occupancy of space in parking lots, warehouses, or storage garages, do not constitute rent from real property. Generally, services are considered rendered to the occupant if they are primarily for his convenience and are other than those usually or customarily rendered in connection with the rental of rooms or other space for occupancy only. The supplying of maid service, for example, constitutes such service; whereas the furnishing of heat and light,

the cleaning of public entrances, exits, stairways and lobbies, and the collection of trash are not considered as services rendered to the occupant.

Section 1.856-4(b)(5)(ii) provides that the trustees or directors of a REIT are not required to delegate or contract out their fiduciary duty to manage the REIT itself, as distinguished from rendering or furnishing services to the tenants of its property or managing or operating the property. Thus, the trustees or directors may do all those things necessary, in their fiduciary capacities, to manage and conduct the affairs of the REIT itself. For example, the trustees or directors may establish rental terms, choose tenants, enter into and new leases, and deal with taxes, interest, and insurance relating to the REIT's property. The trustees or directors may also make capital expenditures with respect to the REIT's property and may make decisions as to repairs of the REIT's property, the cost of which may be borne by the REIT.

Rev. Rul. 84-138, 1984-2 C.B. 123, addresses the treatment of certain reimbursements under an agreement to share costs between a taxpayer and a subsidiary, each of which was a regulated investment company ("RIC"). It was agreed that the taxpayer would pay all the expenses for general and administrative overhead, and the subsidiary would reimburse the taxpayer for its pro rata share of the expenses on an arm's-length basis. The ruling, in distinguishing Jergens Co. v. Commissioner, 40 B.T.A. 868 (1939), states that the taxpayer was not engaged in the business of receiving compensation for services of the type that were reimbursed. Instead, reimbursements to the RIC from the subsidiary were merely repayments of advances made on behalf of the subsidiary. Accordingly, the ruling holds that the reimbursements were not included in the RIC's gross income under section 61, and, therefore, were not subject to the gross income requirement of section 851(b)(2).

Based on Taxpayer's representations, Displays are real property because they are outdoor advertising displays for which an election has been properly made under section 1033(g)(3). Display Rents are primarily for displaying Tenants' advertisements on Displays, and to that extent they are amounts received for the use of, or the right to use, Taxpayer's real property. Part of Display Rents may be attributable to the Services or the Indirect Services. Based on Taxpayer's representations, these activities are customary services for purposes of section 856(d)(1)(B), and the Services are not primarily for the convenience of Tenants.

Taxpayer's representations establish that any portion of Display Rents attributable to personal property will be within the limit established by section 856(d)(2)(C), that Tenants are not related to Taxpayer in a manner that would exclude Display Rents from rents from real property as related party rents under section 856(d)(2)(B), and that Display Rents are not based on the income or profits of any person that would exclude them under section 856(d)(2)(A).

While some Rental Agreements are for the use of Displays for terms shorter than Duration A, Taxpayer's income from Short-Term Rental Agreements will comprise no more than a de minimis portion of its gross income from the rental of Displays in any

taxable year and Short-Term Rental Agreements are contracts for the use of advertising space and not for the provision of services.

Because the Indirect Services and the Other Services will be rendered by an independent contractor from which Taxpayer does not derive or receive any income or by a TRS, the Indirect Services and the Other Services will not be treated as furnished, rendered, or provided by Taxpayer. Based on Taxpayer's representations, the Cost-Sharing Arrangement is analogous to the cost-sharing arrangement addressed in Rev. Rul. 84-138.

CONCLUSION

Accordingly, based on the facts submitted and representations made, we rule that:

(1) Taxpayer's income attributable to Display Rents qualifies as rents from real property under section 856(d) for purposes of section 856(c)(2) and (3);

(2) The Services, the Indirect Services, and the Other Services do not give rise to ITSI under section 856(d)(7) and do not cause any of the Display Rents to be excluded from rents from real property under section 856(d); and

(3) Any amounts received as reimbursements under the Cost-Sharing Arrangement will not be included in the reimbursed party's gross income, including for purposes of section 856(c)(2) and (3).

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, no opinion is expressed or implied as to whether Taxpayer otherwise qualifies as a REIT under part II of subchapter M of chapter 1 of the Code; whether Subsidiary otherwise qualifies as a TRS; whether any service is customarily furnished within the meaning of section 856(d)(1)(B); or whether Taxpayer is eligible to make an election under section 1033(g)(3) with respect to any property.

The ruling herein related to whether income from services performed by Taxpayer is ITSI is specifically limited to whether income is qualifying income for REIT qualification purposes. The definition of rents from real property under section 856(d) differs in scope and structure from the definition of rents from real property under section 512(b)(3), which applies to exempt organizations described in section 511(a)(2). Therefore, an exempt organization providing the same services may have unrelated business taxable income because the income may not be excluded under section 512(b)(3) as rents from real property.

This ruling is directed only to the taxpayer requesting it. Taxpayer should attach a copy of this ruling to each tax return to which it applies. Section 6110(k)(3) of the

Code provides that it may not be used or cited as precedent. The ruling contained in this letter is based upon information and representations submitted by Taxpayer under a penalties of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of this ruling request, it is subject to verification on examination.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

_____

Steven Harrison
Branch Chief, Branch 1
Office of Associate Chief Counsel
(Financial Institutions & Products)

cc: