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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

MAY 21 2003

Date:
Uniform Issue List:
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513.00-00

Contact Person:

Identification Number:

Telephone Number:

T:EO:Br 2

Employer Identification Number:

Legend:

A =
B =

C =
D =

Dear Applicant:

This letter is in reply to a letter dated March 24, 2003, and previous correspondence, from A, B, and C's authorized representative, who requested rulings on their behalf that income received by A, B, and C from D, a limited liability company, does not constitute unrelated business taxable income under section 512(a)(1) of the Internal Revenue Code.

A, B, and C are trade associations recognized by the Internal Revenue Service as exempt from federal income tax under section 501(a) of the Code as organizations described in section 501(c)(6). A, B, and C have previously offered separate trade shows in furtherance of their exempt purposes. Since their respective memberships have similar interests and their exempt purposes are comparable, A, B, and C decided to replace their separate trade shows with a single trade show. By combining their trade shows into one larger trade show, the three exempt organizations will be able to reduce their administrative costs significantly and yet provide more comprehensive programs benefiting all of their members. Since the ruling request was initially submitted, C was merged into B, with the surviving entity now named B.

Even though A, B, and C had many similarities, their membership and purposes were not identical. Accordingly, A, B, and C did not want to merge their three organizations into only one organization in order to provide the single trade show. Furthermore, to protect their respective assets from any state tort law claims that might arise from the future operation of the single trade show, A, B, and C decided to form a separate limited liability company, D, for the operation of the trade show. As an initial deposit to D's bank account, A contributed one-half of the funds in return for a 50% interest, and B and C each contributed one-quarter of the funds in return for their respective 25% interests.

D is a limited liability company that intends to be taxed for federal income tax purposes as a partnership and intends not to file an affirmative election to be taxed as other than a partnership. D intends to report its activities annually on Form 1065, U.S. Partnership Return of Income. Currently, A and B are the sole members of D. In the future, other "qualifying organizations" within the meaning of section 513(d)(3)(C) of the Code may join D.

In a letter dated March 20, 2003, A, B, and C's representative stated that as a limited liability company that is treated as a partnership, D is itself not a "qualifying organization" within the meaning of section 513(d)(3)(C) of the Code. However, D will otherwise engage in activities that constitute "qualified convention and trade show activity" under section 513(d)(3)(B). In a letter dated March 24, 2003, A, B, and C's representative stated that all members of D will be "qualifying organizations" within the meaning of section 513(d)(3)(C) of the Code.

D's Operating Agreement states that it is organized to plan, orchestrate, market, implement, and host certain trade shows. The Agreement also states that a member is acquiring its units for such member's own account as an investment and not with a view to the resale or distribution. The Agreement further states that no member, solely by virtue of its ownership of units, is an agent of D and no member shall have the authority to bind D. Subsequently, A, B, and C may decide to sell the trade show operation, and they may be able to realize a greater return by selling their respective interests in D directly to the buyer.

Income from trade shows represents a significant portion of A, B, and C's respective annual revenues. Due to the exception contained in section 513(d) of the Code, however, none of the organizations' net revenues from prior trade shows resulted in unrelated business taxable income. The revenue generated from these prior trade shows represented income generated from "qualified convention and trade show activities" by "qualifying organizations," thereby satisfying the exception contained in section 513(d). A, B, and C desire that the net revenue generated by the single trade show will satisfy this same exception and not be characterized as unrelated business income, which is subject to tax as provided in section 511.

As amended, rulings have been requested that income derived by A, B, and C from D does not constitute unrelated business taxable income under section 512(a)(1) of the Code, as such income is generated by D's conducting a qualified convention and trade show activity under section 513(d)(3)(B).

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

Section 512(a)(1) of the Code defines the term "unrelated business taxable income" as the gross income derived by any organization from any unrelated trade or business regularly carried on by it, less certain allowable deductions and modifications.

Section 512(c)(1) of the Code provides that if a trade or business regularly carried on by a partnership of which an organization is a member is an unrelated trade or business with respect to such organization, such organization in computing its unrelated business taxable income shall, subject to the exceptions, additions, and limitations contained in section 512(b), include its share (whether or not distributed) of the gross income of the partnership from such unrelated trade or business and its share of the partnership deductions directly connected with such gross income.

Section 513(a) of the Code 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 such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of the purpose or function constituting the basis for its exemption under section 501.

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 or 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 1.513-3(a)(1) of the regulations provides, in part, 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 and 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 of the Code.

Section 1.513-3(b) of the regulations provides, in part, that a convention or trade show activity, as defined in section 513(d)(3)(A) of the Code and section 1.513-3(c)(4), will not be considered unrelated trade or business if it is conducted by a qualifying organization.

Section 1.513-3(c)(2) of the regulations provides, in part, that the term qualified convention or trade show means a show that is conducted by a qualifying organization. At least one purpose of the sponsoring organization in conducting the show is the education of its members.

As a limited liability company that is treated as a partnership, D is itself not a "qualifying organization" within the meaning of section 513(d)(3)(C) of the Code. However, D will otherwise engage in activities that constitute "qualified convention and trade show activity" under section 513(d)(3)(B). With regard to A, B, and C, each is a qualifying organization within the meaning of section 513(d)(3)(C), and each has regularly conducted as one of its substantial exempt purposes a qualified trade show activity within the meaning of section 513(d)(3)(B). The partnership pass-through principles under section 512(c) apply to D, a limited liability company that is taxed as a partnership. Thus, the trade show activities conducted by D and any revenues derived therefrom will be considered the activities and revenues of A, B, and C. As noted previously, all members of D will be "qualifying organizations" within the meaning of section 513(d)(3)(C), and the activities engaged in by D (other than the fact that D itself is not a "qualifying organization") will constitute "qualified convention and trade show activity" within the meaning of section 513(d)(3)(B). Therefore, income received by A, B, and C from D will not be treated as income from an unrelated trade or business.

Accordingly, based on the facts you have presented, we rule as follows:

Under the circumstances described in the original ruling request, as revised, income derived by A, B, and C from D does not constitute unrelated business taxable income under section 512(a)(1) of the Code, as such income is generated by D's conducting a qualified convention and trade show activity under section 513(d)(3)(B).

This ruling is based on the understanding that there will be no material changes in the facts upon which it is based. Any such change should be reported to the Tax Exempt and Government Entities (TE/GE) Customer Service office. Because it could help resolve questions concerning your federal income tax status, this ruling should be kept in your permanent records. A copy of this ruling is being forwarded to the TE/GE Customer Service office.

Except as we have specifically ruled herein, we express no opinion as to the consequences of these transactions under the cited provisions or under any other provisions of the Code.

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 as precedent.

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 yours,

Terrell M Berkovsky

Terrell M. Berkovsky
Manager, Exempt Organizations
Technical Group 2