or publishing house. A trade or business not otherwise related does not become substantially related to an organization’s exempt purpose merely because incidental use is made of the trade or business in order to further the exempt purpose. For example, the manufacture and sale of a product by an exempt college would not become substantially related merely because students as part of their educational program perform clerical or bookkeeping functions in the business. In some cases, the business may be substantially related because it is a necessary part of the exempt activity. For example, in the case of an organization described in section 501(c)(3) and engaged in the rehabilitation of handicapped persons, the business of selling articles made by such persons as a part of their rehabilitation training would not be considered an unrelated business since such business is a necessary part of the rehabilitation program.

(5) If an organization receives a payment pursuant to a contract or agreement under which such organization is to perform research which constitutes an unrelated trade or business, the entire amount of such payment is income from an unrelated trade or business. See, however, section 512(b), (7), (8), and (9), relating to the exclusion from unrelated business taxable income of income derived from research for the United States, or any State, and of income derived from research performed for any person by a college, university, hospital, or organization operated primarily for the purpose of carrying on fundamental research the results of which are freely available to the general public.

(b) Exceptions. Section 513(a) specifically states that the term unrelated trade or business does not include:

(1) 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

(2) Any trade or business carried on by an organization described in section 501(c)(3) or by a governmental college or university described in section 511(a)(2)(B), primarily for the convenience of its members, students, patients, officers, or employees; or

(3) Any trade or business which consists of selling merchandise, substantially all of which has been received by the organization as gifts or contributions.

An example of the operation of the first of the exceptions mentioned above would be an exempt orphanage operating a retail store and selling to the general public, where substantially all the work in carrying on such business is performed by volunteers without compensation. An example of the second exception would be a laundry operated by a college for the purpose of laundering dormitory linens and the clothing of students. The third exception applies to so-called thrift shops operated by a tax-exempt organization where those desiring to benefit such organization contribute old clothes, books, furniture, etc., to be sold to the general public with the proceeds going to the exempt organization.

(c) Special rules respecting publishing businesses. For a special rule with respect to publishing businesses carried on by an organization, see section 513(c) of the Code prior to its amendment by section 121(c) of the Tax Reform Act of 1969 (83 Stat. 542).

(d) Effective date. Except as provided in paragraph (g) of § 1.513–1, this section is applicable with respect to taxable years beginning before December 13, 1967.

(Sec. 513 as amended by sec. 4, Act of July 14, 1960 (P.L. 86–667, 74 Stat. 536); secs. 121 (b)(4) and (c), Tax Reform Act of 1969 (83 Stat. 536, 542))

sponsors the qualified convention or trade show, will not be subject to the tax imposed by section 511. Section 1.513-3(c) defines qualifying organizations and qualified conventions or trade shows. Section 1.513-3(d) concerns the treatment of income derived from certain activities, including rental of exhibition space at a qualified convention or trade show where sales activity is permitted, and the treatment of supplier exhibits at qualified conventions and trade shows.

(2) Effective date. This section is effective for taxable years beginning after October 4, 1976.

(b) Qualified activities not unrelated. A convention or trade show activity, as defined in section 513(d)(3)(A) and §1.513-3(c)(4), will not be considered unrelated trade or business if it is conducted by a qualifying organization described in section 513(d)(3)(C) and §1.513-3(c)(1), in conjunction with a qualified convention or trade show, as defined in section 513(d)(3)(B) and §1.513-3(c)(2), sponsored by the qualifying organization. Such an activity is a qualified convention or trade show activity. A convention or trade show activity which is conducted by an organization described in section 501(c)(5) or (6), but which otherwise is not so qualified under this section, will be considered unrelated trade or business.

(c) Definitions—(1) Qualifying organization. Under section 513(d)(3)(C), a qualifying organization is one which:

(i) Is described in either section 501(c)(5) or (6), and

(ii) Regularly conducts as one of its substantial exempt purposes a qualified convention or trade show.

(2) Qualified convention or trade show. For purposes of this section, the term qualified convention or trade show means a show that meets the following requirements:

(i) It is conducted by a qualifying organization described in section 513(d)(3)(C);

(ii) At least one purpose of the sponsoring organization in conducting the show is the education of its members, or the promotion and stimulation of interest in, and demand for, the products or services of the industry (or segment thereof) of the members of the qualifying organization; and

(iii) The show is designed to achieve that purpose through the character of a significant portion of the exhibits or the character of conferences and seminars held at a convention or meeting.

(3) Show. For purposes of this section, the term show includes an international, national, state, regional, or local convention, annual meeting or show.

(4) Convention and trade show activity. For purposes of this section, convention and trade show activity means any activity of a kind traditionally carried on at shows. It includes, but is not limited to—

(i) Activities designed to attract to the show members of the sponsoring organization, members of an industry in general, and members of the public, to view industry products or services and to stimulate interest in, and demand for such products or services;

(ii) Activities designed to educate persons in the industry about new products or services or about new rules and regulations affecting the industry; and

(iii) Incidental activities, such as furnishing refreshments, of a kind traditionally carried on at such shows.

(d) Certain activities—(1) Rental of exhibition space. The rental of display space to exhibitors (including exhibitors who are suppliers) at a qualified trade show or 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.

(2) Suppliers defined. For purposes of subparagraph (1), a supplier’s exhibit is one in which the exhibitor displays goods or services that are supplied to, rather than by, the members of the qualifying organization in the conduct of such members’ own trades or businesses.

(e) Example. The provisions of this section may be illustrated by the following examples:

Example 1. X, an organization described in section 501(c)(6), was formed to promote the construction industry. Its membership is made up of manufacturers of heavy construction machinery many of whom own, rent, or lease one or more digital computers produced by various computer manufacturers. X is a qualifying organization under section
§ 1.513-4 Certain sponsorship not unrelated trade or business.

(a) In general. Under section 513(i), the receipt of qualified sponsorship payments by an exempt organization which is subject to the tax imposed by section 511 does not constitute unrelated business taxable income derived from an unrelated trade or business.

(b) Exception. The provisions of this section do not apply with respect to payments made in connection with qualified convention and trade show activities. For rules governing qualified convention and trade show activities, see §1.513-3. The provisions of this section also do not apply to income derived from the sale of advertising or acknowledgments in exempt organization periodicals. For this purpose, the term periodical means regularly scheduled and printed material published by or on behalf of the exempt organization that is not related to and primarily distributed in connection with a specific event conducted by the exempt organization. For this purpose, printed material includes material that is published electronically. For rules governing the sale of advertising in exempt organization periodicals, see §1.512(a)-1(f).

(c) Qualified sponsorship payment—(1) Definition. The term qualified sponsorship payment means any payment by any person engaged in a trade or business with respect to which there is no arrangement or expectation that the person will receive any substantial return benefit. In determining whether a