Example 11. V, a trade association, publishes a monthly scientific magazine for its members containing information about current issues and developments in the field. A textbook publisher makes a large payment to V to have its name displayed on the inside cover of the magazine each month. Because the magazine is a periodical within the meaning of paragraph (b) of this section, the textbook publisher makes a qualified sponsorship payment.

Example 10. V, a trade association, publishes a monthly scientific magazine for its members containing information about current issues and developments in the field. A textbook publisher makes a large payment to V to have its name displayed on the inside cover of the magazine each month. Because the magazine is a periodical within the meaning of paragraph (b) of this section, the textbook publisher makes a qualified sponsorship payment.

Example 12. X, a health-based charity, sponsors a year-long initiative to educate the public about a particular medical condition. A large pharmaceutical company manufactures a drug that is used in treating the medical condition, and provides funding for the initiative that helps X produce educational materials for distribution and post information on X's Web site. X's Web site contains a hyperlink to the pharmaceutical company's Web site. On the pharmaceutical company's Web site, the statement appears, "X endorses the use of our drug, and suggests that you ask your doctor for a prescription if you have this medical condition." X reviewed the endorsement before it was posted on the pharmaceutical company's Web site and gave permission for the endorsement to appear. The endorsement is advertising. The fair market value of the advertising exceeds 2% of the total payment received from the pharmaceutical company. Therefore, only the portion of the payment, if any, that X can demonstrate exceeds the fair market value of the advertising on the pharmaceutical company's Web site is a qualified sponsorship payment.

[TD. 8991, 67 FR 20438, Apr. 25, 2002]

§ 1.513–5 Certain bingo games not unrelated trade or business.

(a) In general. Under section 513(f), and subject to the limitations in paragraph (C) of this section, in the case of an organization subject to the tax imposed by section 511, the term unrelated trade or business does not include any trade or business that consists of conducting bingo games (as defined in paragraph (d) of this section).

(b) Exception. The provisions of this section shall not apply with respect to any bingo game otherwise excluded from the term unrelated trade or business by reason of section 513(a)(1) and §1.513–1(e)(1) (relating to trades or businesses in which substantially all the work is performed without compensation).

(c) Limitations—(1) Bingo games must be legal. Paragraph (a) of this section shall not apply with respect to any
A bingo game conducted in violation of State or local law.

(2) No commercial competition. Paragraph (a) of this section shall not apply with respect to any bingo game conducted in a jurisdiction in which bingo games are ordinarily carried out on a commercial basis. Bingo games are ordinarily carried out on a commercial basis within a jurisdiction if they are regularly carried on (within the meaning of §1.513–1(c)) by for-profit organizations in any part of that jurisdiction. Normally, the entire State will constitute the appropriate jurisdiction for determining whether bingo games are ordinarily carried out on a commercial basis. However, if State law permits local jurisdictions to determine whether bingo games may be conducted by for-profit organizations, or if State law limits or confines the conduct of bingo games by for-profit organizations to specific local jurisdictions, then the local jurisdiction will constitute the appropriate jurisdiction for determining whether bingo games are ordinarily carried out on a commercial basis.

(3) Examples. The application of this paragraph is illustrated by the examples that follow. In each example, it is assumed that the bingo games referred to are operated by individuals who are compensated for their services. Accordingly, none of the bingo games would be excluded from the term unrelated trade or business under section 513 (a) (1).

Example 1. Church Z, a tax-exempt organization, conducts weekly bingo games in State O. State and local laws in State O expressly provide that bingo games may be conducted by tax-exempt organizations. Bingo games are not conducted in State O by any for-profit businesses. Since Z’s bingo games are not conducted in violation of State or local law and are not the type of activity ordinarily carried out on a commercial basis in State O, Z’s bingo games do not constitute unrelated trade or business.

Example 2. Rescue Squad X, a tax-exempt organization, conducts weekly bingo games in State M. State M has a statutory provision that prohibits all forms of gambling including bingo games. However, that law generally is not enforced by State officials against local charitable organizations such as X that conduct bingo games to raise funds. Since bingo games are illegal under State law, X’s bingo games constitute unrelated trade or business.

§ 1.513–6 Certain hospital services not unrelated trade or business.

(a) In general. Under section 513(e), the furnishing of a service listed in section 501(e)(1)(A) by a hospital to one or more other hospitals will not constitute unrelated trade or business if—

(1) The service is provided solely to hospitals that have facilities to serve not more than 100 inpatients.