

Unrelated trade or business; business league; parking and shuttle bus services. The operation of a fringe parking lot and a shuttle bus service by an organization exempt from tax under section 501(c)(6) of the Code whose primary purpose is to retain and stimulate trade in a city's downtown area is not an unrelated trade or business within the meaning of section 513. However, the organization's operation of a park and shop plan in which patrons of particular member merchants receive stamps entitling them to free parking is an unrelated trade or business.

Advice has been requested whether, under the circumstances described below, the operation of a fringe parking lot, shuttle bus service, and a park and shop plan by an organization exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 is unrelated trade or business within the meaning of section 513.

The organization is composed of businessmen, civic leaders, and professional people. Its primary purpose is to retain and stimulate trade in a particular city's downtown area that has inadequate parking facilities. Its activities include operation of fringe parking facilities and a shuttle bus service to and from the downtown area. No individual merchant or group of downtown merchants is favored by the manner in which the fringe parking lot and shuttle bus are operated or in the selection of discharge and pickup points. None is able to offer its patrons free or discount parking or bus fares.

As an insubstantial part of its activities, it operates a park and shop plan whereby patrons of particular downtown members merchants are able to park free at certain parking lots in the area. Merchants participating in the park and shop plan purchase parking stamps, which are distributed to their customers and then surrendered to the parking lot management in place of cash. The organization derives net income from these activities.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues and chambers of commerce 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 provides that the activities of an exempt business league or chamber of commerce 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.

Section 513 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 an organization for income or funds or the use it makes of the profits derived) to the exercise or performance by an organization of its exempt

functions.

Section 1.513-1(d)(2) of the regulations provides that a trade or business is 'substantially related' only if the production or distribution of the goods or the performance of the services from which the gross income is derived contributes importantly to the accomplishment of the purposes for which exemption was granted.

The operation of a fringe parking lot and a shuttle bus service in the manner described above provides easy and convenient access to the downtown area and, thus, stimulates and improves business conditions in the downtown area generally, thereby contributing importantly to the accomplishment of the organization's exempt purpose.

Accordingly, this activity is substantially related to the purpose constituting the basis for the organization's exemption and is not unrelated trade or business within the meaning of section 513 of the Code.

Operation of a park and shop plan, which encourages persons to patronize a limited number of participating member merchants in order to obtain free parking, however, constitutes the provision of a particular service to individual members of the organization, and thus does not further the organization's exempt purposes.

Accordingly, operation of the park and shop plan constitutes unrelated trade or business within the meaning of section 513 of the Code.

Compare Rev. Rul. 64-108, 1964-1 (Part I) C.B. 189, which holds that an organization whose primary activity is the operation of a parking stamp plan does not qualify under section 501(c)(6) of the Code as a business league, and Rev. Rul. 78-86, 1978-1 C.B. 151, which states that the Service will not in similar cases follow the decision in *Monterey Public Parking Corporation v. United States*, 481 F.2d 175 (9th Cir. 1973), affirming the determination of the United States District Court for the Northern District of California that an organization whose principal activity was operation of a park and shop plan qualified for exemption under sections 501(c)(3) and 501(c)(4).