

Unrelated income; miniature golf course. The operation of a miniature golf course in a commercial manner by an organization exempt from tax under section 501(c)(3) of the Code, whose purpose is to provide for the welfare of young people, constitutes unrelated trade or business under section 513.

#### ISSUE

Is the operation of a miniature golf course by an organization exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, under the circumstances described below, unrelated trade or business within the meaning of section 513?

#### FACTS

The purpose of the organization and basis for its exemption under section 501(c)(3) of the Code as a charitable organization is to provide for the welfare of young people by the conduct of charitable activities and maintenance of services and facilities that will contribute to their physical, social, mental, and spiritual health, at a minimum cost to them or, where appropriate, at no cost to them. Membership in, and the services and facilities of, the organization are available upon payment of nominal annual dues.

As one of its activities, the organization operates a miniature golf course that is open to the general public. The operation of the miniature golf course, which is managed by salaried employees, is substantially similar to that of commercial miniature golf courses. The admission fees charged are comparable to the fees of similar commercial facilities and are designed to return a profit.

#### LAW AND ANALYSIS

Section 513(a) of the Code provides that the term 'unrelated trade or business' means any trade or business the conduct of which is not substantially related (aside from the need of any organization for income or funds or the use it makes of the profits derived) to the exercise or performance of an organization's purpose or function constituting the basis of its exemption under section 501.

Section 1.513-1(d)(2) of the Income Tax Regulations provides that a trade or business is 'related' to exempt purposes, in the relevant sense, only where the conduct of the business activities has a causal relationship to the achievement of exempt purposes (other than through the production of income); and it is 'substantially related', for purposes of section 513 of the Code, only if the causal relationship is a substantial one. Thus, for the conduct of a trade or business from which a particular amount

of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

The above organization's operation of the miniature golf course in a commercial manner does not contribute importantly to the accomplishment of its charitable purpose.

Compare Rev. Rul. 76-33, 1976-1 C.B. 169, which holds that the rental of residential accommodations by a similar organization is related to its exempt purposes and is not unrelated trade or business.

#### HOLDING

The operation of a miniature golf course by an organization exempt under section 501(c)(3) of the Code, under the circumstances described above, is unrelated trade or business within the meaning of section 513.