

Business league; trade show; rebate of floor deposit. Cash rebates made by an exempt business association to member and nonmember-exhibitors who participate in the association's annual industry trade show, that represent a portion of an advance floor deposit paid by each exhibitor to insure the show against financial loss, are made to all exhibitors on the same basis, and may not exceed the amount of the deposit, do not adversely affect the association's exempt status.

'Advice has been requested whether, under the circumstances described below, an association's exempt status under section 501(c)(6) of the Internal Revenue Code of 1954 is adversely affected by making cash rebates to exhibitors who participate in its trade shows.

'The association was formed to promote a particular line of business. As part of its activities, the association annually sponsors an industry trade show that is designed to stimulate interest in, and to encourage demand for, the industry's products and services. Members of the association as well as nonmembers are permitted to enter exhibits in the show. Each exhibitor is required to make an advance floor deposit to insure the show against financial loss. If revenues from the show exceed expenses and floor deposits, a portion of the floor deposit is returned to all exhibitors on the same basis. Rebates may not exceed the amount of the advance floor deposits.

'Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues, 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 describes a business league as 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.

'An exempt business league may generally make cash distributions to its members without loss of exemption where such distributions represent no more than a reduction in dues or contributions previously paid to the league to support its activities. In *King County Insurance Association*, 37 B.T.A. 288 (1938), acq., 1938-1 C.B. 17, members made cash advances to the association to help meet operating costs. These advances were made with the understanding that a part of them would be refunded from commissions received by the association for writing municipal insurance policies. The court held that the refunds made to members did not affect the association's status as an exempt business league, since such refunds served merely to reduce the amount of dues which otherwise would have had to be contributed by the membership.

'Similarly, in this case the effect of refunding a portion of the floor deposits is to reduce the exhibitors' cost of participating in the trade show. Rebates are made to all exhibitors on the same basis and may not exceed the amount of the deposits. Under these circumstances, such rebates do not constitute inurement of net earnings within the meaning of section 501(c)(6) of the Code and do not adversely affect the association's exempt status.

The facts in this case are distinguishable from those in Michigan Mobile Home and Recreational Vehicle Institute, 66 T.C. 770 (1976), which involved a business league that sponsored an industry trade show and made space rental rebates only to its member-exhibitors. Nonmember-exhibitors were not entitled to such rebates although they were charged the same rates as members for exhibition space. The court held that rebates to member-exhibitors constituted an inurement of income within the meaning of section 501(c)(6) of the Code and that the league did not qualify for exemption.