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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

200030027

Date: APR 26 2000

Contact Person:

ID Number:

Telephone Number:

OP:E:EO:T2

Employer Identification Number:

Dear Sir or Madam:

This is in rely to the letter submitted on your behalf by your legal representative concerning the proposed expansion of your convention facilities to include guest quarters to be used by individuals attending your conferences.

You are exempt under section 501(c)(3) of the Internal Revenue Code and are a private operating foundation within the meaning of section 4942(j)(3) of the Code.

You operate a conference center located outside of a large metropolitan area. You plan and support conferences which are aimed to advance the greater public good. You do not allow corporate or other commercial organizations to use your facilities. Conferences are generally cosponsored by other non-profit organizations and foundations recognized federally tax exempt organization. You design the conferences you facilitate as intense affairs, typically running over two and a half days and two nights. You provide organization, local logistics, and meals. You currently use local motels and other unrelated housing facilities to provide lodging for conference participants. These motels often provided special meeting rooms for your conferees to continue their discussions after they left your facility. When your facility is not being used as a conference center it often has many drop in visitors because of its unique architecture style.

You have concluded that travel to and from your center at the end of the conference day has been disruptive and counterproductive to the work of the conference. Therefore, you have proposed to construct you own guest quarters. You expect to charge fees for use of these quarters and have indicated that you may borrow the funding needed to construct these quarters. In your letter of February 24, 2000, you have represented that the guest quarters shall only be used to house conference participants.

The financial information you have submitted establishes that historically substantially over 90 percent of the distributions you have made in the course of a year are directly connected to the operation of your conference facilities.

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You have requested the following rulings:

1. The operation of the guest house will be substantially related to your exempt purposes under section 501(c)(3) of the Code.

2. The operation of the guest house will not constitute an unrelated trade or business within the meaning of section 513 of the Code.

3, The construction and operation of the guest house will not adversely affect your status as an exempt charitable and educational organization pursuant to section 501(c)(3) of the Code or as a private operating foundation pursuant to section 4942(j)(3).

4. The income generated by the guest house will not constitute unrelated business income within the meaning of section 512(a) of the Code and will not be income subject to tax under section 511.

5. The proposed activity will not constitute a "business enterprise" within the meaning of section 4943(d)(3) of the Code or subject you to the excise tax imposed under section 4943.

6. The guest house will not be "debt-financed property" within the meaning of section 514(b) of the Code.

Section 501(a) of the Code provides, in part, for the exemption from federal income tax of organizations described in section 501(c)(3) of the Code.

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations organized and operated exclusively for charitable or educational purposes no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section I.501(c)(3)-l(d)(2) of the regulations provides that the term "charitable" is used in section 501(c)(3) in its generally accepted legal sense. It includes relief of the poor and distressed, the advancement of religion, the advancement of education and lessening the burdens of government.

Section 1.501(c)(3)-l(d)(3) of the regulations defines the term "educational" as including the instruction or training of the individual for the purpose of improving or developing his capabilities.

Section 509(a) of the Code provides that, unless specifically excepted, a domestic or foreign organization described in section 501(c)(3) is a private foundation and subject to the excise taxes of Chapter 42.

Section 511(a) of the Code imposes a tax on the "unrelated business taxable income" of organizations described in section 501(c).

Section 512(a)(l) of the Code defines the term "unrelated business taxable income" as gross income derived by any organization from any unrelated trade or business (as defined in section 513) regularly carried on by it.

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 such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such

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organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501.

Section I.513-I(d)(2) of the 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 that 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 trade or business to be substantially elated to the purposes for which exemption is granted, the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

Section 514(a) of the Code provides that a percentage of the gross income derived from or on account of each debt-financed property shall be included in the computation under section 512 of an exempt organization's unrelated business taxable income.

Section 514(b)(I) of the Code defines the term "debt-financed property" as property which is held to produce income and with respect to which there is an acquisition indebtedness as defined in section 514(c).

Section 514(b)(I)(A)(i) of the Code excludes from the definition of debt-financed property any property substantially all the use of which is substantially related (aside from the need of the organization for income or funds) to the exercise or performance by such organization of the purpose or function constituting the basis for its exemption.

Section 514(c)(I)(A) of the Code defines the term acquisition indebtedness with respect to any debt-financed property as including the unpaid amount the indebtedness incurred by the organization in acquiring or improving such property.

Section 514(c)(4) of the Code provides that the term "acquisition indebtedness" does not include indebtedness the incurrence of which is inherent in the performance or exercise of the purpose or function constituting the basis of the organization's exemption.

Section I.514(b)-I(b)(i) of the regulations provides that to the extent that the sue of any property is substantially related to the exercise or performance by an organization of its charitable, educational, or other purpose or function constituting its basis for exemption under section 501 such property shall not be treated as "debt-financed property". See section I.513-I for principles applicable in determining whether there is a substantial relationship to the exempt purpose of the organization.

Section I.514(b)-I(b)(ii) of the regulations clarifies the term "substantially related" by indicating that it requires that 85 percent or more of the use of such property must be devoted to the organizations exempt purpose.

Section 4942(j)(3) of the Code defines an operating foundation as any organization which makes qualifying distribution directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated equal to substantially all or the lesser of its adjusted net income or its minimum investment return in addition it must satisfy the requirements of the assets, endowment or support test described in the applicable sections of the regulations.

Section 4942(j)(4) defines the term functionally related business as meaning a trade or business which is not an unrelated trade or business or an activity which is carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which is related (aside from the need of the

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organization for income or funds or the use it makes of the profits derived) to the exempt purposes of the organization.

Section 4943(a)(l) of the Code imposes a tax on the excess business holdings of any private foundation in a business enterprise.

Section 4j943(c) defines the term excess business holdings as meaning the amount of stock or other interest in the enterprise which the foundation would have to dispose of to a person other than a disqualified person in order for the remaining holdings of the foundation in such enterprise to be permitted holdings.

Section 4943(d)(3)(A) of the Code provides that the term "business enterprise does not include a functionally related business.

Section 53.4942(a)-2(c)(3)(iii) of the regulations defines a functionally related business as a trade or business which is not an unrelated trade or business (as defined in section 513), or an activity which is carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which is related (aside from the need of the organization for income or funds or the use it makes of the profits derived) to the charitable, educational or similar exempt purpose of the organization.

The information you have submitted establishes that the purposes for which you were recognized as exempt are to operate a conference center. Historically over 90 percent of the expenditures you have incurred have been directed towards the operation of this facility. Some of your conferences run for several days. You now propose to build a guest house for the convenience of the participants at your conferences. You have represented that the guest house will enable your conferees to maximize the effective use of their time at the conferences and avoid the travel breaks which currently disrupt the conferences when the participants return to the motel at which they are staying. You have also represented that your guest quarters will not be rented out to anyone other than conference participants.

The submitted information establishes that the operation of the guest house in the manner presented is substantially related to the accomplishment of your exempt section 501(c)(3) purposes in that it will enable your conferences to be operated without disruption. Expenditures incurred in both its construction and operation will be considered qualifying distributions for the active conduct of the activities constituting your exempt purposes.

Therefore, based upon the information you have submitted we have concluded that:

1. The operation of the guest house will be substantially related to your exempt purposes under section 50l(c)(3) of the Code.

2. The operation of the guest house will not constitute an unrelated trade or business within the meaning of section 513 of the Code.

3. The construction and operation of the guest house will not adversely affect your status as an exempt charitable and educational organization pursuant to section 50l(c)(3) of the Code or as a private operating foundation pursuant to section 4942(j)(3).

4. The income generated by the guest house will not constitute unrelated business income within the meaning of section 512(a) of the Code and will not be income subject to tax under section 511.

5. The proposed activity will not constitute a "business enterprise" within the meaning of section 4943(d)(3) or subject you to the excise tax imposed under section 4943 of the Code.

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6. The guest house will not be "debt-financed property" within the meaning of section 514(b) of the Code.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

Because this letter could help resolve any question about your exempt status, you should keep it in your permanent records.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

(signed) Garland A. Carter

Garland A. Carter
Manager, Exempt Organizations
Technical Group 2