



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

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The Honorable Brett Guthrie
Member, U.S. House of Representatives
1001 Center Street, Suite 300
Bowling Green, KY 42101

Person to Contact and ID Number:

Contact Telephone Number:

Attention: *****

Dear Congressman Guthrie:

This letter responds to your letter dated March 8, 2012, on behalf of your constituent, *** ***** of ***** . She asked whether an organization exempt under section 501(c)(3) of the Internal Revenue Code may operate a consignment store.

An exempt organization is not subject to tax on its income from an activity substantially related to the charitable, educational, or other purpose that is the basis for the organization's exemption. Such income is exempt even if the activity is a trade or business. However, if an exempt organization regularly carries on a trade or business not substantially related to its exempt purpose, except that it provides funds to carry out that purpose, the organization is subject to tax on its income from that unrelated trade or business. A business activity is not substantially related to an organization's exempt purpose if it does not contribute importantly to accomplishing that purpose (other than through the production of funds).

Any trade or business that consists of selling merchandise, substantially all of which the organization received as gifts or contributions, meets an exclusion from the definition of an unrelated trade or business. If a consignment shop sells merchandise, substantially all of which is not received as gifts or contributions, it does not meet this exclusion. There is also a volunteer labor exclusion from the definition of an unrelated trade or business for any trade or business in which substantially all the work is performed for the organization without compensation.

An organization operating an unrelated trade or business must nonetheless operate exclusively for one or more exempt purposes. An organization will be so regarded only if it engages primarily in activities that accomplish exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of

its activities does not further an exempt purpose.

Additional information on the unrelated business income tax is available in Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*, which can be found on our website, at www.irs.gov/formspubs. Available on the same web page is Form 990-T, Exempt Organization Business Income Tax Return, which an organization subject to the tax on unrelated business income must file. Further information on the requirements for exemption and other topics relevant to charities are on our website, at www.irs.gov/charities.

This letter is for informational purposes only and provides general statements of well defined law. This letter is not a ruling, and taxpayers cannot rely on it as such (Revenue Procedure 2012-4, 2012-1, Internal Revenue Bulletin 125 (IRB) (or its successor)). We will make this letter available for public inspection after deleting names, addresses, or other identifying information as appropriate under the Freedom of Information Act (Announcement 2000-2, 2000-2 I.R.B. 295).

An organization interested in a ruling specific to that organization's circumstances can submit a letter ruling request and user fee to:

Internal Revenue Service
Attention: EO Letter Rulings
P.O. Box 27720
McPherson Station
Washington, DC 20038

Instructions for submitting a letter ruling request are in section 9 of Revenue Procedure 2012-4, available at www.irs.gov/irb/2012-01_IRB/ar09.html. The user fee for letter ruling requests is \$10,000 (Revenue Procedure 2012-8, section 8.08).

I hope this information is helpful. If you have questions, please contact me at ***** or ***** (Identification Number *****) at *****.

Sincerely,

Lois G. Lerner
Director, Exempt Organizations