

Agricultural; negotiating crop prices with processors. A nonprofit organization of growers and producers of a particular agricultural commodity formed principally to negotiate with processors for the price to be paid to members for their crops qualifies for exemption under section 501(c)(5) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(5) of the Internal Revenue Code of 1954 as an agricultural organization.

The organization was formed by persons engaged in growing and producing a particular agricultural commodity. Its principal purpose is to negotiate with processors for the price to be paid to members for their crops. Although the prices negotiated by the organization may be incorporated into the contracts between the individual members and the processors, the members are free to negotiate prices on their own. All of the mechanics of harvesting, inspecting, delivering, and paying for the crops are handled by arrangements between the members and the processors; the organization neither assists nor engages in any of these activities. The organization does not receive any portion of the processors' payments to the members, but receives all of its support from membership dues.

Section 501(c)(5) of the Code provides for the exemption from Federal income tax of labor, agricultural, and horticultural organizations.

Section 1.501(c)(5)-1 of the Income Tax Regulations provides that organizations contemplated by section 501(c)(5) of the Code are those that have as their objects the betterment of the conditions of those engaged in such pursuits, the improvement of their products, and the development of a higher degree of efficiency in their respective occupations.

By negotiating the price of crops with processors, the organization has as its objective the betterment of the conditions of the growers and producers. Compare Rev. Rul. 74-118, 1974-1 C.B. 134, which holds that an organization of farmers' wives that participates in and supports activities designed to obtain higher prices for farm products qualifies for exemption under section 501(c)(5) of the Code.

The activities of the subject organization are distinguishable from those of the organization described in Rev. Rul. 66-105, 1966-1 C.B. 145, which holds that a nonprofit agricultural corporation whose principal activity is marketing livestock as agent for its members does not qualify for exemption under section 501(c)(5) of the Code. In this case, the organization's activities are limited to negotiating a price satisfactory to its members. It is not engaged in any other

activities that foster or assist the members' sale of their crops. The organization is neither responsible for actually entering into a sales contract nor obligated to perform any acts necessary to consummate the sale of crops.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(5) of the Code as an agricultural organization.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(5) of the Code. The application should be filed with the District Director of Internal Revenue for the district in