

Internal Revenue Service  
EP/EO Quality Review Staff  
P. O. Box 1055  
101 Marietta Street Room 1007  
Atlanta, Georgia 30370

Department of the Treasury

SEP 25 1986

Employer Identification  
Number:  
[REDACTED]

Person to Contact:  
[REDACTED]

Contact Telephone Number:  
[REDACTED]

File Folder Number:  
[REDACTED]

[REDACTED]

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Dear Applicant,

We have considered your application for exemption under section 501(c)(12) of the Internal Revenue Code.

The evidence presented disclosed that you were formed [REDACTED] as an unincorporated association. Your purpose is to perform services for the [REDACTED] members of the [REDACTED]. The services consist of arranging for and maintaining the water received and sewerage disposed and irrigation, mowing, trimming and treatment of the lawns for these members.

The [REDACTED] homes in the Association are privately owned and maintained by the owners who are members by virtue of a common water supply. The common water line is connected to the [REDACTED] which processes water from local wells for the entire community of [REDACTED]. The [REDACTED] members of the Association are all residents of the [REDACTED]. The water consumption for all [REDACTED] houses is measured by one meter and billed to the Association. Sewage is handled in the same manner. The Association supervises the irrigation, mowing and treatment of the members' lawns.

The source of receipts for the Association is a monthly assessment to members. The assessment is based on a budget submitted by the Board of Management and approved by the membership at an annual meeting. The rights and interests of members in the annual savings is not determined in proportion to their business with the Association. The Association does not keep records necessary to determine each members rights and interests in its savings.

Section 501(c)(12) of the Code provides exemption from Federal income tax for: Benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or cooperative telephone companies or like organizations; but only if 35 percent or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.

Revenue Ruling 65-201, 1965-2 C.B. 170 provides that a cooperative housing organization operated for the personal benefit of its tenant-owner members is "not a like-organization," and does not qualify for exemption from Federal income tax.

Revenue Ruling 72-36, 1972-1 C.B. 151 provides requirements that cooperative companies must meet for exemption under section 501(c)(12) of the Code. In accordance with fundamental cooperative and mutual principles, the rights and interests of the members in the savings of an organization should be determined in proportion to their business with the organization. An organization must keep such records as are necessary to determine, at any time, each member's rights and interest in the assets of the organization.

Although you were formally created on [REDACTED], you have submitted information that indicates approximately [REDACTED] percent of your expenditures were for lawn maintenance for the period [REDACTED] through [REDACTED]. Information submitted with your application indicates that you will continue these activities. Maintenance of lawns is not an activity of a "like organization" within the meaning of section 501(c)(12) of the Code. Members do not acquire an equity in your savings determined in proportion to their business with you. You do not maintain records necessary to determine, at any time, each member's rights and interests in your assets. Therefore, you are not operated on a cooperative basis and do not qualify for exemption under section 501(c)(12) of the Code or any other subsection. You are required to file Federal income tax Form 1120.

If you do not agree with our proposed denial, we recommend that you request a conference with a member of the Regional Director of Appeals Staff. Your request for a conference should include a written appeal signed by an authorized officer giving the facts, law and any other pertinent information to support your position as explained in the enclosed Publication 392. If you are to be represented by someone who is not one of your authorized officers, he/she will need to file a power of attorney or tax information authorization and be qualified to practice before the Internal Revenue Service as provided in Treasury Department Circular No. 230. The conference may be held at the Regional Office or, if you request, at any mutually convenient District office.

If we do not hear from you within 30 days, this will become our final determination.

Sincerely yours,

[REDACTED]  
District Director

Enclosures:  
Publication 892