

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

JAN 25 1984

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(5) of the Internal Revenue Code of 1954.

You have submitted unsigned and undated bylaws as your organizing document. Article II of the bylaws state that it is a "nonprofit food buying coop, organized for the expressed reason to buy food in bulk to lower overall prices for everyone". Members buy food at prices designated on the supplier's price list and pay an additional 5 percent of each order for the expenses of the coop. Membership is open to any resident in the [REDACTED] area of [REDACTED] but is limited by the bylaws to [REDACTED] families.

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

Section 1.501(c)(5)-1 of the Income Tax Regulations describes organizations contemplated by section 501(c)(5) of the Code as those organizations which have no net earnings inuring to the benefit of any member, and have as their objects the betterment of the conditions of persons engaged in the pursuits of labor, agriculture, or horticulture, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

A labor organization is commonly defined as an association of workers who have combined to protect or promote the interests of the members by bargaining collectively with their employers to secure better working conditions, wages and similar benefits. It is generally composed of employees or representatives of the employees and similar groups. Its principal purposes must be the betterment of the conditions of workers, the improvement of their products and the development of a higher degree of efficiency in their respective occupations.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname							
Date							

Based on the information submitted, we hold that you do not qualify for recognition of exemption under section 501(c)(5) of the Code because you do not meet the definition of a labor organization, and your principal purpose is operating a food cooperative which is not an exempt purpose within the meaning of section 501(c)(5) of the Code and section 1.501(c)(5)-1 of the regulations.

We have also considered whether you can qualify for exemption under section 501(c)(4) of the Code.

Section 501(c)(4) of the Internal Revenue Code provides for the exemption from Federal income tax of organizations not organized for profit, but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting, in some way, the common good and general welfare of the people of the community.

Section 1.501(c)(4)-1(a)(2)(ii) of the regulations provides that an organization is not operated primarily for the promotion of social welfare if its primary activity is carrying on a business with the general public in a manner similar to organizations which are operated for profit.

Revenue Ruling 73-349, 1973-2 C.B. 179, holds that an organization formed to purchase groceries for its members at the lowest possible prices on a cooperative basis is not exempt as a social welfare organization under section 501(c)(4) of the Code. It is operated primarily for the benefit of members and any benefits to the community are not sufficient to meet the requirement of the regulations that the organization be operated primarily for the common good and general welfare of the people of the community.

Because you are a food cooperative similar to the organization described in the revenue ruling cited above, we hold that you do not qualify for recognition of exemption under section 501(c)(4) of the Code. You are operated primarily for the benefit of your members and not for the general welfare of the whole community.

Accordingly, it is held that you are not entitled to recognition of exemption from Federal income tax under section 501(c)(5) or 501(c)(4) of the Code. You are required to file Federal income tax returns on Form 1120 for each year you have been in existence.

If you accept our findings, you do not need to take further action.

[REDACTED]

If you do not accept our findings, we recommend that you request a conference with the Office of Regional Director of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at our Regional office or, if you request, at any mutually convenient District office.

If we do not hear from you within 30 days from the date of this letter, this ruling will become final. If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

[REDACTED]
Acting District Director

Enclosure: Publication 892

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname							
Date							