

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
MAY 19 1981

Gentlemen:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code.

The evidence submitted discloses that you were incorporated [REDACTED] [REDACTED], under the nonprofit laws of the State of [REDACTED]. Your purposes, as stated in your Articles of Incorporation, are:

"Charitable purposes; social purposes; for operation of a community water system; social events; owning; leasing, mortgage and encumbering real and personal property; construction, operation and repair of a community water system and incidental structure; making benevolent contributions to tax exempt recipients and to engage in and do all things incidental to the operation of the above mentioned activities and to engage in all activities which may be incidental to those above mentioned which may be lawfully done."

The sole activity of your organization is limited to the operation of a domestic water supply for a small community in [REDACTED] County, [REDACTED], which is not serviced by any other means or city water system.

Your Articles of Incorporation provide that "upon dissolution of this Corporation, the assets shall be transferred to some entirety or entities willing to continue operation of said water system." Your Bylaws provide that upon the termination of membership the former member's rights and interest in the organization's assets will be terminated.

CODE	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER
SUR-NAME	[REDACTED]					
DATE	5/18/81					

Section 501(c)(4) of the Internal Revenue Code provides exemption for:

"Civic Leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare..."

Section 1.501(c)(4)-1(a)(2)(4) 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. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterment and social improvements."

Section 501(c)(12) of the Internal Revenue Code provides for recognition of exemption from Federal income tax of mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations. In order to qualify for exemption under section 501(c)(12) of the Code an organization must be operated on a truly mutual and cooperative basis. Generally, this means there must be democratic ownership and control of the organization by its members who must have an equitable interest in the organization's assets and savings determined on the basis of their business done with the organization. Upon dissolution assets should be distributed to members and former members in proportion to the amount during that period.

On the basis of the information presented, we conclude that you are not organized and operated within the regulations pertinent to section 501(c)(4) because you are not promoting in some way the common good and general welfare of the people of the community, such as bringing about civic betterment and social improvements. The concept of social welfare suggests benefits affecting a whole community of people rather than a private group of citizens. We conclude, also, that your organization is not purely mutual in character as required by Code section 501(c)(12). Therefore, you are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

(3)

[REDACTED]

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours,

[REDACTED]
District Director

Enclosure:
Publication B92