

Rev. Rul. 67-252, 1967-2 C.B. 195

A nonprofit organization whose members are processors, packers, and distributors of agricultural products may be exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 rather than section 501(c)(5) of the Code.

The Internal Revenue Service has been asked whether an organization formed and operated as described below may be exempt from Federal income tax under section 501(c)(5) or 501(c)(6) of the Internal Revenue Code of 1954.

The organization is a nonprofit corporation formed to promote the sale and use of a processed agricultural product. To this end it conducts research in processing and marketing, and conducts advertising campaigns to encourage consumers to buy and use the product. Results of the research are sometimes used to substantiate advertising claims.

The organization's members are processors, packagers, and distributors of the processed agricultural product. Income is derived from membership dues, fees, and assessments.

Section 501(c)(5) of the Code provides that agricultural organizations are exempt from Federal income tax.

Section 1.501(c)(5)-1 of the Income Tax Regulations provides that agricultural organizations contemplated by section 501(c)(5) of the Code are those which: (1) Have no net earnings inuring to the benefit of any member; and (2) have as their objects the betterment of the conditions of persons engaged in agriculture, the improvement of the grade of their products, and the development of a higher degree of efficiency in their agricultural occupations.

'Agriculture' is the art or science of cultivating the ground, especially in fields or large acreage. It includes preparing the soil, planting seeds, raising crops, and rearing, feeding, and managing livestock. See Webster's Seventh New Collegiate Dictionary (1965).

Section 501(c)(6) of the Code provides that business leagues, chambers of commerce, and boards of trade are exempt from Federal income tax if they are not organized for profit, and no part of their net earnings inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the regulations defines a business league as an association of persons having some common business interest. Its purpose is to promote the common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities are directed to the improvement of business conditions in one or more lines of business, as distinguished from the performance of particular

services for individual persons.

In this case, improvement of the conditions of persons engaged in agriculture arises only indirectly from the activities of this organization whose purpose is to improve business conditions among its members who are packers, processors, and distributors of the processed agricultural product by promoting their common business interest in the development, sale, and use of the product. These persons are not engaged in agriculture.

Therefore, the organization does not qualify for exemption from Federal income tax as an organization described in section 501(c)(5) of the Code, but it does qualify for exemption as an organization described in section 501(c)(6) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(6) of the Code, file an application on Form 1024, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.