A mutual company, whose members are the owners of river front property, formed to contract with the Federal Government to prevent erosion of river banks may qualify for exemption as a 'like organization' under section 501(c)(12) of the Code; I.T. 3286 superseded.

The purpose of this Revenue Ruling is to update and restate, under the current statute and regulations, the position set forth in I.T. 3286, C.B. 1939-1 (Part 1), 126.

A mutual company, whose members are the owners of river front property, was formed to enter into a contract with the Federal Government to prevent the river banks from being damaged by erosion. Pursuant to the contract, the Government undertook construction to protect the river banks. Under the contract the company furnished the Government a right-of-way and saved it harmless from damages due to the construction. The company further agreed to maintain the improvement after completion of the construction. The company's entire income, which consists of contributions from and assessments against its members, is used solely to meet expenses.

Section 501(c)(12) of the Internal Revenue Code of 1954 provides for the exemption from Federal income tax of 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 85 percent or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.

The term 'like organizations' as used in section 501(c)(12) of the Code applies to organizations that are similar to any one of the types of organizations specified in that section. The furnishing of water by mutual ditch or irrigation companies enables their members to reclaim and preserve land for useful purposes. Similarly, the construction and maintenance of improvements that protect river banks from damage or destruction by erosion preserve the usefulness of the members' surrounding land.

Therefore, on the basis of the instant facts, the company is exempt from Federal income tax under section 501(c)(12) of the Code, so long as 85 percent or more of its income consists of amounts collected from members for the purpose of meeting losses and expenses.

Even though an organization considers itself within the scope of this Revenue Ruling, it must (in order to establish exemption under section 501(c)(12) of the Code) file an application on Form 1026, 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 Income Tax Regulations.

I.T. 3286 is superseded since the position set forth therein is updated and restated under current law in this Revenue Ruling.