

Rev. Rul. 70-372, 1970-2 C.B. 118, modified Rev. Rul. 74-518,
1974-2 C.B. 166

An organization of agricultural producers formed to process individual farmer's milk production records for use in improving milk production does not qualify for exemption.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(5) of the Internal Revenue Code of 1954.

The organization, composed of agricultural producers, was formed to process production data for farmers for use in improving the milk production of their dairy herds. Each farmer sends the organization his milk production and test records for each cow in his herd. As its sole activity the organization processes these records and produces statistical analyses that enable farmers to make comparisons with standards established by the State college of agriculture. These analyses are then sent to each farmer on a fee basis. The farmer uses the analyses in the management of his herd for the purpose of improving the quantity and quality of his milk production. The costs of the organization's operations are met solely from the fees charged.

Section 501(c)(5) of the 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 provides that the organizations contemplated by section 501(c)(5) of the Code as entitled to exemption from income taxation are those which have as their objects the betterment of the conditions of those engaged in such pursuits, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

The processing of production and test records for individuals farmers does not of itself better the conditions of those engaged in agricultural pursuits, improve the grade of their products, or develop a higher degree of efficiency in their operations. The services provided simply relieve the individual farmer of work that he would either have to perform himself or have performed for him. Accordingly, it is held that the organization is not exempt from Federal income tax under section 501(c)(5) of the Code.