

Social welfare organization; grocery cooperative. An organization formed to purchase groceries for its membership at the lowest possible prices on a cooperative basis is not exempt from tax as a social welfare organization under section 501(c)(4) of the Code.

Advice has been requested whether the organization described below qualifies for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization was formed for the purpose of purchasing groceries for its membership at the lowest possible prices. It receives orders from its members, consolidates them, and purchases the food in quantity. Each member pays for the cost of his food. In addition, each member is assessed an equal monthly service charge by the governing board of trustees for the monthly operating costs of the organization. Membership is open to all individuals in a particular community.

Section 501(c)(4) of the Code provides for the exemption from Federal income tax of 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) of the Income Tax Regulations states 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 coming within the scope of this section is one that is operated to bring about civic betterments and social improvements.

The organization here described is a private cooperative enterprise for the economic benefit or convenience of the members. In *Commissioner v. Lake Forest, Inc.*, 305 F.2d 814 (4th Cir. 1962), it was held that a corporation that provided housing on a cooperative basis lacked the necessary requirements of an organization described in section 501(c)(4) of the Code. The court held the operation to be a private self-help enterprise with only an incidental benefit to the community as a whole.

Similarly, in this case the organization is operated primarily for the private 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. Accordingly, this organization is not exempt from Federal income tax as a social welfare organization under section 501(c)(4) of the Code.