

Agricultural; livestock marketing facility. A nonprofit organization that owns and operates a livestock facility and leases it to local members of a nonexempt national association of farmers for use in implementing the association's collective bargaining program with processors does not qualify for exemption as an agricultural organization.

'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 as an agricultural organization.

'The organization is a corporation created by a group of farmers in a particular area, all of whom are members of a nonexempt national association of farmers. The national association represents its local membership in collective bargaining on contracts with processors covering selling prices and other conditions of disposal of the members' livestock. The corporation was formed to purchase land and to erect and maintain thereon a facility through which livestock, marketed through the national association's collective bargaining program, could be collected, weighed, sorted, graded, and then shipped to buyers.

'The corporation's principal activity is the operation and leasing of this facility to local members of the national association. Each farmer using the facility pays a fee to the corporation based upon the weight and/or kind of livestock being marketed. This fee is set at a level that will pay operating costs as well as the monthly payments on indebtedness incurred in acquiring the land and constructing the facility. Once the indebtedness is paid, the fee will be reduced to cover only operating costs.

'Section 501(c)(5) of the Code provides for the exemption from Federal income tax of agricultural organizations.

'Section 1.501(c)(5)-1 of the Income Tax Regulations states 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 operation and leasing of a facility for collecting, weighing, sorting, grading, and shipping of livestock, the organization's principal activity, is the providing of a business service to those members who make use of the national association's collective bargaining program. This service merely relieves the members of the organization of work they would either have to perform themselves or have performed for them. Such activity does not serve an exempt purpose of an agricultural

organization under section 1.501(c)(5)-1 of the regulations. See Rev. Rul. 74-195, 1974-1 C.B. 135, and Rev. Rul. 66-105, 1966-1 C.B. 145.

'Accordingly, the organization does not qualify for exemption from Federal income tax under section 501(c)(5) of the Code as an agricultural organization.