Rev. Rul. 77-46, 1977-1 C.B. 147

Labor union members' savings plan. A nonprofit organization established under a collective bargaining agreement between a union and an employers' association to enable members of the union to save money by having a set amount withheld from their pay and deposited in a bank account, the funds to be paid to them annually with any interest remaining after payment of administration expenses, fails to qualify for tax exemption under section 501(c)(5) of the Code.

'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 was established pursuant to a collective bargaining agreement between a union and an employers' association to enable the members of the union to save money through a savings plan. The organization is administered by equal numbers of employer and union representatives.

A set sum, established by the collective bargaining agreement, is withheld from each union member's pay and deposited in a bank account. The funds on deposit earn interest that is used to offset the organization's administrative expenses. The funds deposited during the course of the year, plus any interest that remains after the administrative expenses have been paid, are paid to the members annually on a fixed date.

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

'Section 1.501(c)(5)-1 of the Income Tax Regulations provides that labor organizations entitled to exemption from Federal income tax are those which have no net earnings inuring to the benefit of any members, and 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.


'In order for an organization to qualify as an exempt labor organization, it is necessary that its activities be those commonly or historically recognized as characteristic of labor organizations, or be closely related and necessary to accomplishing the principal purposes of exempt labor organizations.
Historically, labor organizations were primarily organized to negotiate wages, hours, and working conditions. Additionally, labor organizations were organized as mutual benefit organizations that provided death, sickness, and accident benefits to members.

A review of the legislative history in this area, however, fails to show that labor organizations were exempted from Federal income taxation because they provided savings plans for employees. Additionally, savings plans that disburse money on an annual basis are not closely related to a labor organization's principal activities of negotiating wages, hours, and working conditions nor are such savings plans closely related and necessary to providing the mutual benefits characteristically associated with labor organizations.

Accordingly, because the described organization fails to provide a benefit for which labor organizations have traditionally been exempted from Federal income taxation, and since the organization's activities are not closely related and necessary to accomplishing the principal activities of labor organizations, it fails to qualify for exemption from Federal income tax under section 501(c)(5) of the Code.