

Employees' association; cooperative buying service for members. A nonprofit organization whose membership is limited to the employees of an employer in a particular municipality and whose primary purpose is to obtain for its members discount prices on merchandise, services, and activities is not exempt as a local association of employees under section 501(c)(4) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954 as a local association of employees.

The organization, the membership of which is limited to the employees of an employer in a particular municipality, arranges with various businesses to extend discounts to its members on their purchases of specified goods and services. Tickets are printed for each participating business to show the terms of the discount. These tickets are compiled into books that the organization distributes to its members. A member who wants to claim a discount at the time of a purchase from a participating business must present the appropriate ticket. The organization also purchases tickets to various recreational and entertainment activities at a discount and sells them to its members at the same discounted price. No other significant benefits are provided the members.

Section 501(c)(4) of the Code provides for the exemption from federal income tax of local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

In the statutory scheme of exemption of certain organizations from federal income tax, Congress has employed a combination of definitional and popular-name descriptions of designate the organizations exempted under the various provisions. Under basic rules of statutory construction Congress is presumed to have employed such terms according to their legal significance at the time of the enactment of the particular provisions in which they are used. *United States v. Cambridge Loan and Building Company*, 278 U.S. 55 (1928) (T.D. 4252, VII-2 C.B. 290), *Commercial Travelers' Life and Accident Ass'n v. Rodway*, 235 F.370 (1913).

The organization described above is operated primarily as a cooperative buying service for its members. Organizations providing such a service were not contemplated by Congress as being included within the term "local associations of employees" for purposes of section 501(c)(4) of the Code. See Hearings Before House Ways and Means Committee on Revenue Revision of

1924, 68th Cong., 1st Sess. 5-12 (1924), and 65 Cong. Rec. 2905-2906 (1924), for a description of the types of services for members that Congress contemplated, none of which is similar to cooperative buying services.

Accordingly, the organization described above does not qualify for exemption from federal income tax under section 501(c)(4) of the Code as a local association of employees.