[redacted]

Person to Contact: [redacted]
Telephone Number: [redacted]
Refer Reply to: [redacted]

Date: OCT 27 1986

CERTIFIED

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under Section 501(c)(6) of the Internal Revenue Code.

The information submitted discloses that you were incorporated as a cooperative association in the State of [redacted].

As stated in your Articles of Incorporation "The purpose of the association shall be to supply and furnish to its members and patrons on a cooperative basis such supplies; commodities, properties, and services as they may require; to sell and market their products; to perform services and to manufacture and produce products as will employ the labor and skills of the members and patrons to their best economic, social and cultural advantage."

You also mentioned in your By-Laws and in a pamphlet published that:

a. The only qualification for membership is a one time fee of [redacted].
b. There are two forms of memberships, working and non-working.
c. All members receive 5% discounts at the cash register and working members receive 25% discounts.

In a developmental letter dated [redacted] we requested that you furnish certain information.

In your response dated [redacted], you submitted the following information:

1. Food products are purchased in bulk quantities from suppliers. Products are marked for resale to your co-op members to cover products and transit. Nonmembers are able to buy products at nonreduced prices.

[redacted]

2. [redacted] members volunteer their services. These members then receive a larger purchase discount based on the number of hours worked. The cost to nonmembers cover the discounts received by working members.
3. Current membership consists of around [redacted] members.

Section 501(c)(6) of the Internal Revenue Code provides for exemption of "business leagues, chambers of commerce, real estate boards, boards of trade, or professional football leagues (whether or not administering a pension fund for football players), not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of Income Tax Regulations reads as follows:

"BUSINESS LEAGUES, CHAMBERS OF COMMERCE, REAL ESTATE BOARDS AND BOARDS OF TRADE. A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated. A stock or commodity exchange is not a business league, a chamber of commerce, or a board of trade within the meaning of section 501(c)(6) and is not exempt from tax. Organizations otherwise exempt from tax under this section are taxable upon their unrelated business taxable income. See sections 511 to 515, inclusive, and the regulations thereunder".

Revenue Ruling 66-338, 1966-2 C.B. 226, provides where the principle activities of a nonprofit organization, formed to promote the interest of a particular retail trade, are the management consultant services of its field representatives who

advise members on their individual business problems and the sale of supplies and equipment to members at low prices, the organization does not qualify for exemption, even though such activities are conducted on a cooperative basis and produce only sufficient income to be self-sustaining.

Section 501(c)(4) of the Internal Revenue Code grants exemption to civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or 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.

Section 1.501(c)(4)-1 of the Income Tax Regulations states (a) Civic organizations-(1) In general. A civic league or organization may be exempt as an organization described in Section 501(c)(4) if--
(i) It is not organized or operated for profit; and
(ii) It is operated exclusively for the promotion of social welfare.
(2) Promotion of social welfare - (i) In general. 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 embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements. A "social welfare" organization will qualify for exemption as a charitable organization if it falls within the definition of "charitable" set forth in paragraph (d) (2) of Section 1.501(c)(3)-1 and is not an "action" organization as set forth in paragraph (c)(3) of Section 1.501(c)(3)-1. (ii) Political or social activities. The promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. Nor is an organization operated primarily for the promotion of social welfare if its primary activity is operating a social club for the benefit, pleasure, or recreation of its members, or is carrying on a business with the general public in a manner similar to organizations which are operated for profit. A social welfare organization may qualify under Section (c)(4) even though it is an "action" organization described in paragraph (c)(3) (ii) or (iv) of Section 1.501(c)(3)-1 if it otherwise qualifies under this Section.
(b) Local associations of employees. Local associations of employees described in section 501(c)(4) are expressly entitled to exemption under Section 501(a). As conditions to exemption, it is required (1) that the membership of such an association be

limited to the employees of a designated person or persons in a particular municipality, and (2) that the net earnings of the association be devoted exclusively to charitable, educational, or recreational purposes. The word "local" is defined in paragraph (h) of Section 501(c)(12)-1. See paragraph (d)(2) and (3) of Section 1.501(c)(3)-1 with reference to the meaning of "charitable" as used in this Section.

Revenue Ruling 73-349, 1973-2 C.B. 179, provides that an organization formed to purchase groceries for its membership at the lowest possible prices on a cooperative basis is not exempt as a social welfare organization.

We have concluded that you do not qualify for exemption from Federal income tax as an organization described in Section 501(c)(6) of the Internal Revenue Code because your organization is operated primarily as a service to individuals rather than to promote a common business interest.

We have also carefully considered your application for recognition of exemption from Federal income tax under Section 501(c)(4) and concluded that you are not entitled to exemption because you are closely related to the organization described in Revenue Ruling 73-349 above.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Procedures for Adverse Determinations, which explains in detail your rights and procedures.

[redacted]

You are required to file income tax returns on Form 1120 annually, with your District Director.

If you agree with this determination, please sign and return the enclosed Form 6018.

If members of your staff have any questions, please have them contact the name above.

Sincerely,

[redacted]

District Director

Enclosures:
Pub. 892
Form 6018