

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

CERTIFIED

JAN 2 1980

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under section 501(c)(7) of the Internal Revenue Code.

The information submitted discloses that you were formed as an association [REDACTED], for the purpose of providing a variable and low-cost mechanism for the consumption of food and related products through a cooperative effort. Your activities also include providing educational and auxiliary services to your members of the cooperative and the community.

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

- 1) In reference to your educational purpose
 - a) Members of your organization provide lectures concerning food storage, product nutrition, food preparation, etc.
 - b) You also mail information to community organizations to inform them about your ability to provide nutritional information services.
- 2) In reference to your activities
 - a) You stated that you benefit the community by making food available to people (namely organic food users, vegetarians and people with allergic conditions).
 - b) You also stated that you provide a social atmosphere by drawing together people from different communities and different walks of life.
- 3) In reference to your membership
 - a) You provide food at a lower cost than local retail grocers to your members.
 - b) You are certified to accept food stamps.

The primary activity of your organization is to provide food to families in the community at wholesale prices. All purchases and payments of food are done as a group. You also stated in your By-laws that as long as they have paid a one-time refundable (\$) collateral deposit, they are considered members.

Section 501(c)(7) of the Code provides for exemption from Federal Income Tax of clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

Revenue Ruling 73-344, 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.

Revenue Ruling 58-588, 1958 - 2 C.B. 265, provides that an organization formed by several individuals to operate a health and recreational club, but whose predominant activity is the selling of services for profit to an unlimited number of so-called members who have no voice in the management of the club and whose only rights are to use the club's facilities upon the payment of an admission fee, is not a social club entitled to exemption from Federal Income Tax.

We have concluded that your club does not qualify for exemption from Federal Income Tax under section 501(c)(7) of the Code because your club is operated primarily as a service to individuals, rather than for the pleasure and recreation of the members; that social features are not a material purpose for the club but are merely incidental to the active furtherance of a predominant purpose to engage in the business of providing food services to individuals termed "associate members," that "associate" membership is not a true membership but is merely a guise under which unlimited number of individuals may utilize the club's services.

Accordingly, we find that you are not entitled to exemption from Federal Income Tax as an organization described in section 501(c)(7) of the Code. You are required to file Federal Income Tax Returns on Form 1120.

[REDACTED]

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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.

If you agree with this determination please sign and return the enclosed Form 6010.

Sincerely yours,

[REDACTED]
[REDACTED]
District Director

Enclosures:
Publication 892
Form 6010