Rev. Rul. 72-391, 1972-2 C.B. 249

An organization of farmers formed to furnish farm laborers for individual farmers does not qualify for exemption.

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, composed of farmers, was formed to provide its members with necessary farm labor. The organization obtains requests from member farmers for workers, assigns the laborers to the farmers, receives payment from the farmers, and pays the laborers or their representatives. The organization's income is from a small rental fee paid by the workers and fees and dues paid by the farmers. Its funds are used to operate a labor camp to house transient farm workers while they are working in the area.

Section 501(c)(5) of the Code provides for the exemption from Federal income tax of labor, agricultural, or horticultural organizations.

Section 1.501(c)(5)-1 of the Income Tax Regulations provides 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 furnishing of farm laborers for individual farmers does not better the conditions of those engaged in agricultural pursuits, improve the grade of their products, or develop a higher degree of efficiency in their operations within the meaning of the regulations. The organization, by engaging in the activities described above, is merely providing services to individual farmers that they would have to provide for themselves or get someone else to provide for them. See Revenue Ruling 70-372, C.B. 1970-2, 118, which holds that an organization of agricultural producers formed to process individual farmers' milk production records for use in improving milk production does not quality for exemption from Federal income tax under section 501(c)(5) of the Code.

The purpose of the organization is to provide its member farmers with the labor force necessary for the profitable operation of their farms. The furnishing of housing for the transient farm laborers is merely a necessary adjunct for the accomplishment of the organization's purpose-providing a labor force for its members.

Accordingly, it is held that the organization is not exempt from Federal income tax under section 501(c)(5) of the Code