

[Exemptions]

[Federal income tax exempt status issued by IRS &/or as declared by Taxpayers]

26 U.S. Code § 501 (c)(16)



501(c)(16) — Cooperative Organizations to Finance Crop Operations



Part 7. Rulings and Agreements

Chapter 25. Exempt Organizations Determinations Manual

Section 16. Corporations Organized to Finance Crop Operations

7.25.16 Corporations Organized to Finance Crop Operations

- 7.25.16.1 Overview
- 7.25.16.2 Statutory Provisions
- 7.25.16.3 Application for Exemption

Manual Transmittal

December 12, 2013

Purpose

(1) This transmits revised IRM 7.25.16, Exempt Organizations Determinations Manual - Corporations Organized to Finance Crop Operations.

Material Changes

(1) IRM 7.25.16.2, Statutory Provisions, has been expanded to clarify how the maximum stock dividend rate is determined.

(2) IRM 7.25.16.3, Application for Exemption, has been revised to specify what must be submitted when applying for an exemption.

Effect on Other Documents

IRM 7.25.16 dated June 1, 2001 is superseded.

Audience

TEGE (Exempt Organizations)

Effective Date

(12-12-2013)

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Tax Exempt and Government Entities

7.25.16.1 (12-12-2013)

Overview

1. Guidance is provided to EO personnel reviewing exemption request from corporations organized to finance crop operations.

7.25.16.2 (12-12-2013)

Statutory Provisions

1. IRC 501(c)(16) provides exemptions from Federal income tax for corporations organized by a farmers' cooperative marketing or purchasing association exempt under IRC 521, or the members thereof, to finance the ordinary crop operations of such members or other producers. The finance corporation must be operated in conjunction with the farmers' cooperative association.
2. The corporation can issue stock if:
 - A. the stock dividend rate is fixed and does not exceed the larger of either the legal rate of interest in the state of incorporation or 8% per year, and
 - B. substantially all stock is owned by the farmers' cooperative association or its members. However, this rule does not apply to non-voting preferred stock. See IRM 7.25.34 for comprehensive stock ownership rules applicable to IRC 501(c)(16).
3. The exemption may not be denied merely because the corporation accumulates reasonable or necessary reserves for business purposes. See Reg. 1.521-1, which relates to a reserve or surplus and to capital stock applicable to IRC 501(c)(16) corporations.

7.25.16.3 (12-12-2013)

Application for Exemption

1. There is no prescribed form on which organizations can apply for exemption. The organization may submit a letter to the Internal Revenue Service requesting IRC 501(c)(16) status as well as a correct user fee and the necessary supporting documentation, which should include the following:
 - A. Articles of incorporation and bylaws, and
 - B. The latest financial statements showing assets, liabilities, receipts and disbursements.

2. Application letter and user fee must be sent to:

Internal Revenue Service

P.O. Box 12192

Covington, KY 41012-0192

More Internal Revenue Manual

https://www.irs.gov/irm/part7/irm_07-025-016.html