4 T.C. 758 (1945)

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For an entity to be treated as a tax-exempt cooperative, there must be a legally binding obligation, arising from its articles of incorporation, bylaws, or other contract, to distribute excess funds to its members on a patronage basis.

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Summary

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American Box Shook Export Association, a corporation organized under California's general corporation laws, sought to avoid income tax by claiming it operated as a tax-exempt cooperative. The Tax Court ruled against the Association, finding that neither its governing documents nor any contract legally obligated it to distribute excess revenues to its members based on patronage. The absence of such a binding obligation meant the Association was subject to corporate income tax, and distributions to members were not deductible. This case clarifies the requirements for establishing cooperative status for tax purposes.

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Facts

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The American Box Shook Export Association was formed in 1940 under California's general corporation laws, succeeding an unincorporated association. It acted as a sales organization, purchasing unassembled wooden box parts (shook) exclusively from its twelve member-stockholders for export. The Association negotiated prices with members to determine a

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