Dr. P. Phillips Cooperative v. Commissioner, 17 T.C. 1021 (1951)

To qualify for a tax exemption as an agricultural cooperative under Section 101(12) of the Internal Revenue Code, a cooperative must primarily market products grown by its members or other producers, and not act as a marketing agent for mere purchasers of already-harvested crops.

Summary

Dr. P. Phillips Cooperative sought a tax exemption under Section 101(12) as an agricultural cooperative. The Tax Court denied the exemption, finding that the cooperative marketed fruit not only for its members but also for members who purchased harvested fruit from non-members. The court reasoned that marketing activities extended beyond those of a true agricultural cooperative, which should be limited to marketing the products of "farmers, fruit growers, or like associations." Furthermore, the cooperative engaged in grove caretaking activities, which were not an exempt purpose under the statute. Although the cooperative was allowed to exclude cash patronage dividends, retained amounts for reserves could not be excluded because there was no pre-existing obligation to issue revolving fund certificates.

Facts

Dr. P. Phillips Cooperative was formed to market fruit for its members. Some members marketed fruit grown in their own groves. However, some members also purchased already-harvested fruit from non-members and then marketed that fruit through the cooperative, receiving patronage dividends on those sales. The cooperative also provided grove caretaking services. The cooperative retained amounts from marketing activities for its reserves but was not always obligated to issue revolving fund certificates for those amounts.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the cooperative's income tax for 1946 and 1949, disallowing the claimed tax exemption. The cooperative petitioned the Tax Court for a redetermination of the deficiencies.

Issue(s)

1. Whether the cooperative qualifies for a tax exemption under Section 101(12) of the Internal Revenue Code as an agricultural cooperative.

2. Whether the cooperative can exclude from its income amounts retained for reserves, where it was not always obligated to issue revolving fund certificates for those amounts.

Holding

1. No, because the cooperative marketed fruit for members who purchased harvested fruit from non-members and engaged in grove caretaking activities, neither of which qualify for the exemption under Section 101(12).

2. No, because the cooperative was not obligated to issue revolving fund certificates for funds retained from marketing operations. However, amounts retained from caretaking activities, for which revolving fund certificates were issued, may be excluded from income.

Court’s Reasoning

The court reasoned that Section 101(12) exempts associations of “farmers, fruit growers, or like associations” marketing their own products. The cooperative’s activity of marketing fruit purchased from non-members did not fall within the scope of the exemption because the members were acting as mere purchasers, not as growers or producers, with respect to that fruit. The court emphasized that the cooperative marketed fruit that was already picked:

