

810-3-32-.01. Exempt Organizations.

(1) The following organizations are exempt from taxation as provided by § 40-18-32:

(a) Labor, agricultural or horticultural organizations. In order to be exempt, these organizations must have no net earnings inuring to the benefit of any member, and 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 organizations. These organizations, otherwise exempt, are taxable on their unrelated business taxable income.

(b) Fraternal beneficiary societies, orders, or associations. A fraternal beneficiary society is exempt from tax only if operated under the "lodge system" or for the exclusive benefit of the members so operating. "Operating under the lodge system" means carrying on its activities under a form of organization that comprises local branches, chartered by a parent organization and largely self-governing, called lodges, chapters, or the like. In order to be exempt it is also necessary that the society have an established system for the payment to its members or their dependents of life, sick, accident, or other benefits.

1. To be exempt a fraternal beneficiary society must be operated in furtherance of its fraternal purposes and may not engage in business activities of a kind carried on for profit, except that the carrying on of activities which raise revenues from members and their guests, will not deprive the society of its exemption.

(c) Business league, chambers of commerce or boards of trade, not organized for profit, and no part of the net earnings of which inures to the benefit of any private stockholder or individual. A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. These organizations, otherwise exempt, are taxable upon their unrelated business taxable income.

(d) A civic league or organization may be exempt as an organization if it is not organized or operated for profit, and it is operated exclusively for the promotion of social welfare. An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community.

1. Clubs organized and operated exclusively for pleasure, recreation and other non-profitable purposes, no part of the earnings of which inures to the benefit of any private stockholder or members. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities. A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate (other than an incidental sale of property), timber, or other products, is not exempt.

(e) Farmers' and other mutual hail, cyclone or fire insurance companies, mutual ditch or irrigation companies, or like organizations of a purely local character, the income of which consists solely of assessments, dues and fees collected from members for the sole purpose of meeting expenses. An organization of a purely local character is one whose business activities are confined to a particular community, place, or district, irrespective, however, of political subdivisions. If the activities of an organization are limited only by the borders of a state, it cannot be considered to be purely local in character.

(f) Cooperative associations engaged in the marketing of farm products for farmers, fruit growers, livestock growers, dairymen, etc., and turning back to the producers the proceeds of the sales of their products less the necessary operating expenses, on the basis of either the quantity or the value of the products furnished by them, are exempt from income tax. If the proceeds of the business are distributed in any other way than on such a proportionate basis, the association does not meet the requirements of the Code and is not exempt. In order to show its cooperative nature and to establish compliance with the requirement of the Code that the proceeds of sales, less necessary expenses, be turned back to all producers on the basis of either the quantity or the value of the products furnished by them, it is necessary for such an association to keep permanent records of the business done both with members and nonmembers.

(g) Federal land banks and national farm loan associations as provided in Section 26 of the Act of Congress approved July 17, 1916, entitled "An act to provide for agricultural development, to create standard forms of investment based upon farm mortgages, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create government depositories and financial agent for the United States, and for other purposes."

(h) All national banks and national banking associations and all corporations engaged in the business of banking and of conducting a financial business employing moneyed capital coming into competition with the business of national banks during and for the periods during which such national banks and corporations are subject to an excise tax imposed by this state on or with respect to their respective incomes.

(l) Building and loan associations, substantially all the business of which is confined to making loans to members.

(j) Insurance companies upon which the statutes of Alabama impose a tax upon their premium income.

(k) Code Section 40-18-25 and regulations thereunder, provide that certain trusts are exempt from taxation under this chapter.

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