Houston Lawyer Referral Service, Inc. v. Commissioner, 69 T. C. 570 (1978)

Oral communications not reduced to writing do not constitute part of the administrative record in declaratory judgment proceedings under Section 7428 for tax exemption disputes.

Summary

In Houston Lawyer Referral Service, Inc. v. Commissioner, the U. S. Tax Court held that oral statements made by the petitioner during conferences with the IRS could not be introduced as evidence in a declaratory judgment proceeding to review the denial of tax-exempt status under Section 501(c)(3). The court emphasized that only written information submitted during the administrative process forms part of the administrative record, and failure to reduce oral communications to writing does not constitute "good cause" for introducing additional evidence. This ruling underscores the importance of documenting all relevant information in writing when seeking tax-exempt status and the limited scope of judicial review in these cases.

Facts

Houston Lawyer Referral Service, Inc. applied for tax-exempt status under Section 501(c)(3) but was denied by the IRS. During the administrative process, the petitioner's representatives met with IRS officials and orally provided additional information that was not included in the written administrative record. The petitioner then sought a declaratory judgment under Section 7428, requesting to introduce this oral information as evidence.

Procedural History

The petitioner filed a motion in the U. S. Tax Court to present evidence not contained in the administrative record. The IRS objected, arguing that the petitioner failed to show "good cause" for introducing such evidence. The Tax Court denied the petitioner's motion, ruling that oral statements not reduced to writing are not part of the administrative record and cannot be considered in the declaratory judgment proceeding.

Issue(s)

1. Whether oral statements made during conferences with the IRS, but not reduced to writing, constitute part of the administrative record for purposes of a declaratory judgment under Section 7428.
2. Whether the petitioner's failure to submit oral information in writing constitutes "good cause" for permitting such information to be introduced as evidence.

Holding

1. No, because the administrative record is limited to written documents submitted

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during the administrative process, and oral communications not reduced to writing are excluded.
2. No, because mere neglect to confirm oral statements in writing does not satisfy the “good cause” requirement of Rule 217(a).

Court’s Reasoning

The court reasoned that the purpose of Section 7428 is to review the IRS’s administrative determination based on the written record. The court emphasized that allowing oral testimony would convert the proceeding into a trial de novo, which is not the intent of the statute. The court also noted that the IRS’s procedural rules require all relevant information to be submitted in writing. The court distinguished between the administrative function of the IRS in ruling on exemption applications and the judicial function of reviewing those decisions, stating that the court’s role is to assess the legal issues based on the written record. The court cited the legislative history of Section 7428, which requires exhaustion of administrative remedies, including satisfying all procedural requirements of the IRS. The court concluded that the petitioner’s failure to reduce oral statements to writing did not constitute “good cause” under Rule 217(a) for introducing additional evidence.

Practical Implications

This decision has significant implications for organizations seeking tax-exempt status under Section 501(c)(3). It underscores the importance of documenting all relevant information in writing during the administrative process. Organizations must ensure that all facts, arguments, and data they wish the IRS to consider are submitted in writing, as oral statements alone will not be considered part of the administrative record in subsequent judicial proceedings. This ruling may lead to more formal and thorough documentation practices in the application process for tax-exempt status. It also reinforces the limited scope of judicial review under Section 7428, emphasizing that courts will not consider evidence beyond what was presented to the IRS in writing. Organizations denied exempt status may need to file a new application with the necessary written documentation to have their case reconsidered, rather than relying on oral communications in a declaratory judgment proceeding.

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