General Conference of Free Church v. Commissioner, 71 T. C. 920 (1979)

An organization must meet both the organizational and operational tests to qualify for tax-exempt status under Section 501(c)(3).

Summary

The General Conference of the Free Church of America sought tax-exempt status under Section 501(c)(3) but was denied due to deficiencies in its organizational document and failure to provide sufficient information about its operations. The court held that the organization's articles of federation did not meet the organizational test because they lacked provisions ensuring the distribution of assets upon dissolution to another exempt organization, and the organization failed the operational test due to insufficient details about its activities. The court also dismissed the organization's constitutional objections to providing the requested information, affirming that the IRS's inquiries were necessary and did not violate the First Amendment.

Facts

The General Conference of the Free Church of America was incorporated in Illinois in 1976 and applied for tax-exempt status under Section 501(c)(3) in 1976. The IRS denied the application, citing that the organization's articles of federation did not limit its purposes to those permitted under the statute and failed to provide for the distribution of assets upon dissolution. Additionally, the organization did not adequately describe its activities and purposes. The organization responded to IRS inquiries with objections citing various constitutional amendments and biblical passages, refusing to provide detailed financial or operational information.

Procedural History

The organization filed a petition for declaratory judgment with the U. S. Tax Court after receiving a final adverse determination from the IRS. The IRS moved for an order to submit the case based on the administrative record, which the court granted after the organization failed to appear at a scheduled hearing. The case was decided solely on the administrative record.

Issue(s)

1. Whether the General Conference of the Free Church of America's organizing document satisfies the organizational test of Section 501(c)(3).
2. Whether the organization's refusal to provide detailed information about its activities, operations, and purposes to the IRS is supported by a legitimate constitutional basis.

Holding

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1. No, because the organization’s articles of federation did not provide for the distribution of assets upon dissolution to another exempt organization as required by Section 501(c)(3).
2. No, because the organization’s constitutional objections to the IRS’s inquiries were frivolous and did not provide a legitimate basis for refusing to provide the requested information.

Court’s Reasoning

The court applied the organizational and operational tests as outlined in Section 501(c)(3) and its regulations. For the organizational test, the court found that the organization’s articles of federation did not meet the requirement that assets be dedicated to an exempt purpose upon dissolution. Illinois law allowed for assets to be distributed to members upon dissolution, which would violate the organizational test. The organization did not amend its articles to address this issue before the final adverse determination. For the operational test, the court determined that the organization failed to provide sufficient information about its activities, despite multiple requests from the IRS. The court rejected the organization’s constitutional objections, stating that the IRS’s inquiries were necessary to determine the organization’s eligibility for tax-exempt status and did not violate the First Amendment. The court emphasized that tax exemptions are a matter of legislative grace and not a constitutional right.

Practical Implications

This decision underscores the importance of ensuring that an organization’s governing documents meet the organizational test of Section 501(c)(3), particularly with respect to the distribution of assets upon dissolution. Organizations seeking tax-exempt status must provide detailed and accurate information about their operations and finances to the IRS. The ruling also clarifies that constitutional objections, such as those based on the First Amendment, are unlikely to succeed in justifying a refusal to provide necessary information for tax-exempt status determinations. Practitioners should advise clients to carefully review and amend their organizational documents to comply with Section 501(c)(3) requirements before applying for tax-exempt status. This case has been cited in subsequent cases involving similar issues, reinforcing the IRS’s authority to inquire into an organization’s operations when determining eligibility for tax-exempt status.

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