American New Covenant Church v. Commissioner, T.C. Memo. 1980-225

An entity seeking declaratory judgment regarding tax-exempt status must be the same entity to which the IRS issued the adverse determination; a newly incorporated entity is legally distinct from its unincorporated predecessor and must independently seek a determination.

Summary

American New Covenant Church (ANCC), a corporation, petitioned the Tax Court for a declaratory judgment after the IRS denied tax-exempt status to Life Science Church (Chapter 669) (LSC), an unincorporated entity. LSC had applied for exemption, but later incorporated as ANCC and sought to substitute its corporate documents for LSC's application. The Tax Court dismissed ANCC's petition for lack of jurisdiction, holding that ANCC, as a separate legal entity, was not the proper party to challenge the IRS's ruling against LSC. The court emphasized that incorporation creates a new legal entity requiring a new exemption application and administrative process.

Facts

Life Science Church (Chapter 669) (LSC), an unincorporated entity, applied for tax-exempt status under Section 501(c)(3) in 1976. LSC was chartered by Life Science Church, a division of Basic Bible Church. During the IRS review, LSC indicated it wished to change its name to The New Covenant Church in America and disaffiliate from Basic Bible Church. Subsequently, The New Covenant Church in America incorporated as American New Covenant Church (ANCC). ANCC submitted its articles of incorporation to the IRS but did not file a new exemption application. The IRS issued a final adverse ruling to LSC. ANCC then filed a petition for declaratory judgment in Tax Court.

Procedural History

1. Life Science Church (Chapter 669) (LSC), an unincorporated entity, applied to the IRS for tax-exempt status under Section 501(c)(3).
2. IRS reviewed LSC's application and corresponded with LSC requesting further information.
3. LSC indicated a name change to The New Covenant Church in America and later incorporated as American New Covenant Church (ANCC).
4. ANCC submitted articles of incorporation but no new exemption application.
5. IRS issued a proposed adverse ruling to LSC, followed by a final adverse ruling.
6. American New Covenant Church (ANCC) petitioned the Tax Court for a declaratory judgment.
7. The IRS moved to dismiss for lack of jurisdiction, arguing ANCC was not the proper party.

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Issue(s)

1. Whether American New Covenant Church (ANCC), a corporation, is the proper party to petition for a declaratory judgment under Section 7428 regarding the tax-exempt status determination made by the IRS concerning Life Science Church (Chapter 669) (LSC), an unincorporated entity?

2. Whether the Tax Court has jurisdiction to issue a declaratory judgment regarding American New Covenant Church's (ANCC) own tax-exempt status when ANCC has not filed an application for exemption in its corporate form?

Holding

1. No, because American New Covenant Church (ANCC) is a separate and distinct legal entity from Life Science Church (Chapter 669) (LSC). ANCC was not the organization to which the IRS issued the adverse ruling.

2. No, because American New Covenant Church (ANCC) failed to exhaust its administrative remedies by not submitting an application for tax-exempt status in its corporate form, which is a prerequisite for declaratory judgment jurisdiction under Section 7428.

Court's Reasoning

The court reasoned that under Section 7428(b)(1), only the organization whose qualification is at issue can file a declaratory judgment petition. The court determined that LSC and ANCC are distinct legal entities. Incorporation creates a new legal person separate from its unincorporated predecessor. Quoting *Dartmouth College v. Woodward*, 17 U.S. 518, 636 (1819), the court emphasized that a corporation is "regarded as a legal person, a juristic entity, separate and distinct from the persons who compose or own it." The court cited Revenue Ruling 67-390, which states that incorporating an exempt unincorporated association creates a new legal entity requiring a new exemption application. The IRS's adverse ruling was directed at LSC, not ANCC. Therefore, ANCC lacked standing to challenge the ruling against LSC. Furthermore, regarding ANCC's own status, the court noted that ANCC had not exhausted administrative remedies, a prerequisite for jurisdiction under Section 7428(b)(2). ANCC never filed an exemption application as a corporation, despite being advised to do so by the IRS. Exhaustion requires following IRS procedures, including providing necessary information through a proper application.

Practical Implications

This case underscores the critical importance of proper entity formation and application procedures when seeking tax-exempt status. Legal professionals and organizations must recognize that incorporation creates a new legal entity for tax purposes. A prior exemption application by an unincorporated predecessor does not

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automatically transfer to the incorporated entity. Organizations undergoing incorporation after applying for exemption must file a new application for the newly formed corporation. Failure to do so will result in a lack of standing to challenge adverse rulings directed at the predecessor entity and a failure to exhaust administrative remedies for the new entity, precluding declaratory judgment jurisdiction in Tax Court. This case reinforces the IRS's procedural requirements and the Tax Court's strict interpretation of jurisdictional prerequisites in declaratory judgment actions related to tax-exempt organizations. It highlights that procedural formality is key in dealings with the IRS, particularly concerning entity changes and exemption applications.

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