University of Massachusetts Medical School Group Practice v. Commissioner, 74 T. C. 1299 (1980)

A medical school group practice can qualify for tax-exempt status under IRC section 501(c)(3) if it is organized and operated exclusively for charitable, educational, or scientific purposes, despite collecting fees for services rendered by its members.

Summary

The University of Massachusetts Medical School Group Practice, established by state statute to enhance the medical school's clinical training program, sought tax-exempt status under IRC section 501(c)(3). The Tax Court held that the group practice qualified for exemption because it was organized and operated exclusively for charitable, educational, and scientific purposes. The court rejected the Commissioner's argument that the group practice served private interests by collecting and disbursing fees to its members, emphasizing that the funds were used to support the broader educational mission of the medical school.

Facts

The University of Massachusetts Medical School Group Practice was created by the Massachusetts legislature to serve as a component of the University of Massachusetts Medical School and its teaching hospital. The group practice consists of medical school faculty members who participate in clinical teaching at the hospital. Fees for services provided by group members are collected and deposited into a trust fund, which is used for administrative costs, faculty compensation, and to improve the medical school's educational and research programs. The group practice's activities are governed by the university's trustees and subject to state conflict of interest laws.

Procedural History

The group practice applied for tax-exempt status under IRC section 501(c)(3) in 1977. The IRS issued a final adverse ruling in 1978, denying the exemption. The group practice then sought a declaratory judgment from the Tax Court, which held that the organization qualified for exemption under section 501(c)(3).

Issue(s)

1. Whether the University of Massachusetts Medical School Group Practice is organized and operated exclusively for charitable, educational, or scientific purposes within the meaning of IRC section 501(c)(3).

Holding

1. Yes, because the group practice's primary purpose is to enhance the clinical training program of the medical school, and the collection and disbursement of fees

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is incidental to this purpose and does not serve private interests.

Court’s Reasoning

The Tax Court found that the group practice was organized and operated exclusively for charitable, educational, and scientific purposes. The court applied the organizational and operational tests of section 501(c)(3), concluding that the group practice’s activities furthered the educational mission of the medical school. The court rejected the Commissioner’s argument that the group practice served private interests by collecting and disbursing fees to its members, noting that the fees were used to support the broader educational mission of the medical school. The court relied on its prior decision in B. H. W. Anesthesia Foundation, Inc. v. Commissioner, 72 T. C. 681 (1979), which held that a similar organization qualified for exemption under section 501(c)(3). The court also found that the group practice’s articles of incorporation, viewed in conjunction with the governing statutory authorization and rules and regulations, satisfied the organizational test of section 501(c)(3).

Practical Implications

This decision clarifies that a medical school group practice can qualify for tax-exempt status under IRC section 501(c)(3) if its primary purpose is to enhance the educational mission of the medical school, even if it collects fees for services rendered by its members. The decision emphasizes the importance of the organizational and operational tests in determining tax-exempt status and provides guidance on how to structure a group practice to qualify for exemption. The decision may encourage other medical schools to establish group practices to support their clinical training programs and seek tax-exempt status. The decision also highlights the role of state law in regulating the activities of such organizations and ensuring that they serve public, rather than private, interests.

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