

## ***Allen Eiry Trust v. Commissioner, 77 T. C. 1263 (1981)***

The U. S. Tax Court has jurisdiction to issue declaratory judgments on the status of a charitable trust under section 4947(a)(1) to the extent it relates to sections 501(c)(3) and 509(a).

### **Summary**

The Allen Eiry Trust sought a declaratory judgment to determine its status under sections 115 and 4947(a)(1) of the Internal Revenue Code. The Commissioner moved to dismiss for lack of jurisdiction, asserting that section 7428 did not apply to section 115. The Tax Court held that it lacked jurisdiction over the section 115 issue but could adjudicate the trust's status under section 4947(a)(1) as it relates to sections 501(c)(3) and 509(a). The ruling clarifies the scope of the Tax Court's jurisdiction in declaratory judgment actions concerning charitable trusts.

### **Facts**

The Allen Eiry Trust was a testamentary trust established to benefit the Seneca County Old Folks Home. It sought a determination from the IRS that its income was exempt under section 115(a) as an instrumentality of Seneca County, Ohio, or that it was a nonexempt charitable trust under section 4947(a)(1). The IRS determined that the trust did not qualify under section 115(a) and was a nonexempt charitable trust but not a public charity under section 509(a)(3), making it a private foundation subject to excise taxes.

### **Procedural History**

The trust filed a petition for declaratory judgment in the U. S. Tax Court under section 7428. The Commissioner moved to dismiss for lack of jurisdiction, arguing that section 7428 did not apply to determinations under section 115. The case was assigned to a Special Trial Judge for a hearing on the motion.

### **Issue(s)**

1. Whether the U. S. Tax Court has jurisdiction under section 7428 to issue a declaratory judgment regarding the exemption of the trust's income under section 115.
2. Whether the U. S. Tax Court has jurisdiction under section 7428 to issue a declaratory judgment regarding the trust's status as a nonexempt charitable trust under section 4947(a)(1).

### **Holding**

1. No, because section 7428 does not grant the Tax Court jurisdiction over determinations under section 115.
2. Yes, because the trust's status under section 4947(a)(1) is dependent on its

qualification under sections 501(c)(3) and 509(a), over which the Tax Court has jurisdiction under section 7428.

### **Court's Reasoning**

The Tax Court's jurisdiction in declaratory judgment actions is limited to specific provisions of the Internal Revenue Code, as outlined in section 7428. The court found that section 7428 does not extend to determinations under section 115, which deals with the exemption of certain income from gross income. However, the court noted that section 4947(a)(1) treats a nonexempt charitable trust as an organization described in section 501(c)(3) for the purposes of applying private foundation rules, including those under section 509(a). The trust's status under section 4947(a)(1) is thus inextricably linked to its qualification or classification under sections 501(c)(3) and 509(a), over which the Tax Court has jurisdiction. The court also considered the confusion caused by the IRS's final adverse determination letter, which erroneously referenced section 409(a)(3) instead of section 509(a)(3).

### **Practical Implications**

This decision clarifies the scope of the Tax Court's jurisdiction in declaratory judgment actions concerning charitable trusts. Practitioners should be aware that while the Tax Court cannot issue declaratory judgments on the exemption of income under section 115, it can adjudicate a trust's status under section 4947(a)(1) as it relates to sections 501(c)(3) and 509(a). This ruling may affect how trusts seeking such determinations proceed with their cases and how the IRS communicates its determinations to avoid confusion. The decision also underscores the importance of accurate communication from the IRS, as errors in determination letters can lead to confusion and unnecessary litigation.