***Service Bolt & Nut Co. Profit Sharing Trust v. Commissioner, 78 T. C. 812 (1982)***

Exempt organizations, including profit-sharing trusts, are taxable on their distributive share of income from limited partnerships engaged in unrelated trades or businesses.

**Summary**

Service Bolt & Nut Co. Profit Sharing Trust and related trusts, all qualified under IRC sections 401(a) and 501(a), held limited partnership interests in wholesale fastener distribution businesses. The IRS determined that income from these partnerships constituted "unrelated business taxable income" under section 512, thus subject to tax under section 511. The Tax Court upheld this determination, ruling that the trusts were liable for the tax and related penalties for failing to file returns, rejecting the trusts' argument that limited partnership income should be treated as passive income not subject to taxation.

**Facts**

Service Bolt & Nut Co. Profit Sharing Trust and related trusts were established as tax-exempt entities under sections 401(a) and 501(a). These trusts acquired limited partnership interests in five newly formed partnerships engaged in wholesale fastener distribution. Each partnership was comprised of a corporate general partner and four limited partners, with the trusts holding varying percentages of profit interest in each partnership, except for the one in which their respective corporation was the general partner. The trusts did not file tax returns for the income years in question, leading to IRS assessments and subsequent litigation.

**Procedural History**

The IRS initially sent 30-day letters to the trusts proposing taxes on the partnership income, followed by assessments. After receiving protests and technical advice requests from the trusts, the IRS abated the initial assessments but later issued statutory notices of deficiency. The trusts petitioned the Tax Court, which consolidated the cases and ultimately ruled in favor of the Commissioner.

**Issue(s)**

1. Whether the trusts' distributive share of income from their limited partnership interests in the wholesale fastener distributing partnerships constituted "unrelated business taxable income" under section 512.
2. Whether the trusts, if liable for tax on unrelated business taxable income under section 511, are also liable for additions to tax under section 6651(a)(1) for failure to file returns.
3. Whether the IRS is estopped from asserting the deficiencies and additions to tax against the trusts.

© 2025 SCOTUSreports.com. All rights reserved. 

## Holding

1. Yes, because the trusts' distributive share of partnership income is subject to tax under section 511 as "unrelated business taxable income" under section 512, as the trusts were members of the partnerships, regardless of their limited partner status.
2. Yes, because the trusts failed to meet their burden of proof to show reasonable cause for not filing returns, thus liable for additions to tax under section 6651(a)(1).
3. No, because the IRS's abatement of initial assessments did not bar later proceedings, and the trusts failed to prove detrimental reliance necessary for estoppel.

## Court's Reasoning

The Tax Court interpreted sections 512(c) and 513(b) to apply to all partnership interests held by exempt organizations, not just general partnership interests. The court found no statutory basis to exclude limited partnerships from the definition of "member" in these sections. Legislative history, including examples of "silent partners" in committee reports, supported the court's view that Congress intended to tax exempt organizations' distributive shares of partnership income. The court rejected the trusts' arguments that limited partnership income should be treated as passive income, emphasizing that the tax on unrelated business income addresses the competitive advantage from pools of tax-exempt income in partnerships. The court also noted the trusts' failure to provide evidence of reasonable cause for not filing returns and rejected their estoppel argument due to lack of detrimental reliance and legal misunderstanding regarding the effect of the IRS's abatement of assessments.

## Practical Implications

This decision establishes that tax-exempt organizations, including profit-sharing trusts, must include their distributive share of income from limited partnerships in their unrelated business taxable income calculations. Legal practitioners advising such organizations must ensure compliance with filing requirements for this income. The ruling impacts tax planning for exempt entities with limited partnership interests, potentially affecting investment decisions and requiring adjustments in financial strategies. Subsequent cases, such as Revenue Ruling 79-222, have cited this decision in similar contexts, reinforcing the taxation of limited partnership income from unrelated businesses for exempt organizations.

© 2025 SCOTUSreports.com. All rights reserved. 