Amherst H. Wilder Foundation v. Commissioner, 77 T. C. 398 (1981)

A declaratory judgment action under section 7428 requires an actual controversy, which is not present when an organization receives a favorable tax-exempt status ruling after agreeing to limit its activities.

Summary

The Amherst H. Wilder Foundation sought declaratory judgment under section 7428 to challenge the IRS's determination that its proposed consulting and management services were not charitable activities. Despite initially receiving a proposed adverse ruling, the Foundation agreed to limit its activities to the Energy Park project, securing a favorable determination letter. The court dismissed the petition for lack of jurisdiction, holding that no actual controversy existed since the Foundation received the tax-exempt status it sought, albeit with agreed-upon limitations. This case illustrates the jurisdictional limits of section 7428 and the necessity of an actual controversy for declaratory judgment actions.

Facts

The Amherst H. Wilder Foundation, a nonprofit corporation, applied for tax-exempt status under section 501(c)(3) to manage the St. Paul Energy Park project and provide consulting and property management services. The IRS issued a proposed adverse ruling, stating that the consulting services were not charitable. After protesting, the Foundation agreed to limit its activities to the Energy Park, receiving a favorable determination letter. The Foundation then sought declaratory judgment to challenge the IRS's position on the consulting services.

Procedural History

The Foundation filed a petition for declaratory judgment in the Tax Court under section 7428. The IRS moved to dismiss for lack of jurisdiction, arguing that no actual controversy existed since the Foundation received the exempt status it requested. The Tax Court granted the motion to dismiss.

Issue(s)

1. Whether the Tax Court has jurisdiction under section 7428 to hear a declaratory judgment action when an organization receives a favorable determination letter after agreeing to limit its activities.

Holding

1. No, because there is no actual controversy when an organization receives the tax-exempt status it requested, even if it had to agree to limit its activities to obtain that status.

Court's Reasoning

The court relied on the requirement under Gladstone Foundation v. Commissioner that an actual controversy must exist for jurisdiction under section 7428. The Foundation received a favorable ruling after agreeing not to engage in the consulting services, eliminating any controversy. The court distinguished this case from Friends of Soc. of Servants of God, where a favorable ruling was still considered adverse due to different classification. The court emphasized that the Foundation's agreement to limit its activities removed any adverse legal interests between the parties, and issuing a declaratory judgment would be an advisory opinion on hypothetical facts. The court also noted the harshness of the situation but adhered to the statutory interpretation of section 7428, which requires an actual controversy for jurisdiction.

Practical Implications

This decision underscores the importance of an actual controversy for declaratory judgment actions under section 7428. Organizations seeking to challenge IRS rulings must carefully consider whether an agreement to limit activities to obtain a favorable ruling eliminates the basis for judicial review. Practitioners should advise clients that agreeing to conditions to secure exempt status may preclude later challenges to those conditions. This case also highlights the limited scope of section 7428, leaving organizations in similar situations with few remedies other than risking revocation by engaging in the disputed activities or forming a new entity to challenge the ruling. Subsequent cases have continued to interpret section 7428 narrowly, reinforcing the need for an actual controversy before seeking declaratory judgment.

