National Association of American Churches v. Commissioner, 82 T. C. 18 (1984)

An organization must be operated exclusively for exempt purposes to qualify for tax exemption under IRC § 501(c)(3); substantial nonexempt activities, such as providing tax advice, can disqualify an organization.

Summary

The National Association of American Churches sought tax-exempt status as a religious organization under IRC § 501(c)(3). The IRS denied this status, concluding that the Association engaged in substantial nonexempt activities, specifically providing tax and financial advice to its family mission members. The Tax Court upheld this decision, finding that the Association's involvement in helping members incorporate and navigate tax issues constituted a significant nonexempt purpose. The court also denied the Association's group ruling request for its affiliated family missions due to insufficient information and the Association's own denial of exemption.

Facts

The National Association of American Churches, established in Missouri in 1979, sought tax-exempt status as a religious organization. It consisted of 72 family missions, each incorporating as a church to claim tax exemptions. The Association provided these missions with sample incorporation documents, tax advice, and representation before the IRS. It also organized tax seminars. Financial records suggested that family members transferred personal assets to these missions, potentially for tax benefits, which raised concerns about the legitimacy of their exempt status. The IRS found the Association's responses to inquiries vague and insufficient.

Procedural History

The Association applied for tax-exempt status under IRC § 501(c)(3) in 1980. The IRS conducted an extensive review and issued an adverse ruling in 1981, which the Association protested. After a final adverse ruling, the Association sought a declaratory judgment from the U. S. Tax Court under IRC § 7428. The Tax Court reviewed the administrative record and upheld the IRS's decision.

Issue(s)

1. Whether the National Association of American Churches qualifies for tax-exempt status under IRC § 501(c)(3) given its activities.
2. Whether the Association's family missions qualify for a group ruling request under Rev. Proc. 80-27.

Holding

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1. No, because the Association's provision of tax and financial advice to its members constitutes a substantial nonexempt activity, disqualifying it from tax-exempt status under IRC § 501(c)(3).
2. No, because the Association did not provide adequate information about its family missions' activities and finances, and the Association itself was denied exempt status.

Court's Reasoning

The Tax Court applied the organizational and operational tests required for tax exemption under IRC § 501(c)(3). The Association met the organizational test but failed the operational test due to its substantial involvement in providing tax and financial advice. The court noted that any substantial nonexempt purpose disqualifies an organization, citing cases like *Ecclesiastical Order of Ism of Am v. Commissioner* and *Christian Stewardship Assistance, Inc. v. Commissioner*. The court also criticized the Association's failure to provide complete and candid information to the IRS. Regarding the group ruling request, the court found that the Association did not meet the requirements of Rev. Proc. 80-27, which mandates detailed information about subordinate units' activities and finances.

Practical Implications

This decision emphasizes that religious organizations must be operated exclusively for exempt purposes to maintain tax-exempt status. It serves as a warning to organizations that providing substantial tax advice can jeopardize their exemption. Practitioners should advise clients to ensure their activities align strictly with exempt purposes and to maintain transparent communication with the IRS. This case has influenced subsequent rulings on the tax-exempt status of religious organizations and the scrutiny of their activities. Organizations should be cautious about engaging in activities that could be perceived as serving nonexempt purposes, such as financial or tax advice, and must provide detailed and clear information when seeking exemption or group rulings.

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