Association of the Bar of the City of New York v. Commissioner, 89 T. C. 599 (1987)

Rating judicial candidates by a tax-exempt organization does not constitute prohibited political campaign activity if the ratings are nonpartisan, based on objective criteria, and do not endorse specific candidates.

Summary

The Association of the Bar of the City of New York sought declaratory judgment on its tax-exempt status under IRC § 501(c)(3) after the IRS denied it due to its practice of rating judicial candidates. The Tax Court held that the Association's ratings, which were nonpartisan and based on objective criteria, did not violate the prohibition against political campaign activities. The ratings were intended to inform the public about candidates' qualifications without endorsing or opposing specific candidates, thus maintaining the Association's tax-exempt status.

Facts

The Association of the Bar of the City of New York, established to promote legal reforms and justice, sought recognition as a tax-exempt organization under IRC § 501(c)(3). Its activities included rating judicial candidates based on professional ability, experience, character, and temperament. These ratings were categorized as "approved," "not approved," or "approved as highly qualified. " The ratings were publicized through press releases and the Association's official publication, The Record. The IRS denied the Association's application, arguing that these ratings constituted prohibited political campaign activities.

Procedural History

The Association filed for declaratory judgment under IRC § 7428(a) after the IRS issued a final adverse determination. The Tax Court reviewed the case based on the stipulated administrative record, focusing on whether the Association's rating activities constituted participation or intervention in political campaigns on behalf of candidates for public office.

Issue(s)

1. Whether the Association's practice of rating judicial candidates constitutes participation or intervention in political campaigns on behalf of such candidates, as prohibited by IRC § 501(c)(3).

Holding

1. No, because the Association's ratings of judicial candidates do not constitute prohibited political campaign activities under IRC § 501(c)(3). The ratings are nonpartisan, based on objective criteria, and do not endorse or oppose specific

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candidates.

Court’s Reasoning

The Tax Court reasoned that the Association’s ratings were not endorsements of specific candidates but rather evaluations of their qualifications against objective standards. The court emphasized that the ratings did not urge voters to support or oppose any particular candidate, and multiple candidates could receive the same rating. The court distinguished this from cases where organizations actively campaigned for or against candidates. The court also noted that the ratings were consistent with the Association’s educational purposes and did not violate the prohibition against political campaign activities. Dissenting opinions argued that the ratings indirectly influenced elections and should be considered prohibited activity, but the majority found that the ratings were passive and did not actively seek to influence election outcomes.

Practical Implications

This decision clarifies that nonpartisan, objective ratings of candidates by tax-exempt organizations do not necessarily constitute political campaign activity. Legal professionals should note that such ratings can be part of an organization’s educational mission without jeopardizing tax-exempt status. This ruling may encourage other organizations to engage in similar activities, provided they maintain strict nonpartisanship and objectivity. The decision also has implications for the IRS’s interpretation of what constitutes political campaign activity, potentially affecting future rulings on tax-exempt status. Subsequent cases, such as those involving educational or professional organizations, may reference this decision to support their own rating or evaluation activities.

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