Grandbouche v. Commissioner, 99 T. C. 604 (1992)

A court may limit an IRS subpoena to protect First Amendment associational rights when the government fails to show a compelling need for the information.

Summary

In Grandbouche v. Commissioner, the U. S. Tax Court addressed the IRS's subpoena of bank records related to the National Commodity and Barter Association (NCBA) and its members, including the taxpayer, Joanna Grandbouche. The court ruled that while the IRS had a legitimate interest in investigating Grandbouche's tax liability, the subpoena must be limited to protect the First Amendment rights of NCBA members from unwarranted disclosure. The court applied a two-part test, requiring a showing of potential First Amendment infringement and a compelling government need for the information. The decision balanced the IRS's investigative powers against the privacy and associational rights of NCBA members, limiting the subpoena to records directly relevant to Grandbouche's tax issues.

Facts

Joanna Grandbouche, widow of NCBA founder John Grandbouche, was under audit for her 1987 income tax liability. The IRS issued subpoenas to a bank where NCBA maintained accounts, seeking records related to NCBA and its members. NCBA, an unincorporated association promoting civil liberties and tax reforms, argued that the subpoenas violated its members' First Amendment rights to privacy and association. The bank produced over 20,000 documents but sought reimbursement for compliance costs, while NCBA moved for a protective order to limit the subpoena's scope.

Procedural History

The IRS served subpoenas on the bank in October 1991 and February 1992. NCBA filed motions for a protective order in April and May 1992, asserting First Amendment concerns. The bank moved for reimbursement of costs in June 1992. A hearing was held in May 1992, leading to the Tax Court's decision to limit the subpoena and partially grant the bank's motion for costs.

Issue(s)

1. Whether the IRS's subpoena of NCBA's bank records violates the First Amendment associational rights of NCBA members.
2. Whether the bank is entitled to reimbursement for costs incurred in complying with the IRS subpoena.

Holding

1. Yes, because NCBA made a prima facie showing of potential First Amendment

© 2025 SCOTUSreports.com. All rights reserved.

infringement, and the IRS failed to demonstrate a compelling need for the full scope of the subpoenaed records.
2. No, because the bank's original compliance costs were part of its normal business operations; however, the bank was entitled to reimbursement for additional costs incurred due to the limited subpoena.

Court's Reasoning

The court applied a two-part test from United States v. Citizens State Bank, requiring a prima facie showing of potential First Amendment infringement and a compelling government need for the subpoenaed information. NCBA established that disclosure of its members' identities would have a chilling effect on membership, satisfying the first prong. The IRS failed to show a compelling need for information beyond records directly related to Grandbouche's tax liability, as the court found that the government's interest did not outweigh the members' First Amendment rights. The court also considered the bank's motion for costs, denying reimbursement for original compliance costs but granting it for additional costs due to the limited subpoena, recognizing the bank's non-party status and the duplication of effort required.

Practical Implications

This decision reinforces the need for courts to balance the IRS's subpoena powers against First Amendment rights, requiring a compelling government interest to justify broad disclosure. Attorneys should be aware that similar cases may require limiting subpoenas to protect associational privacy. The ruling also affects legal practice by emphasizing the need to tailor discovery requests narrowly to avoid infringing on constitutional rights. For businesses like banks, the decision highlights potential reimbursement for additional costs incurred due to limited subpoenas, especially when non-parties are involved. Subsequent cases have cited Grandbouche to underscore the importance of protecting First Amendment rights in the context of IRS investigations.

© 2025 SCOTUSreports.com. All rights reserved.