United Cancer Council, Inc. v. Commissioner, 100 T. C. 162 (1993)

The IRS does not need to provide a pre-revocation judicial hearing before revoking an organization's tax-exempt status.

Summary

The United Cancer Council, Inc. challenged the IRS's revocation of its tax-exempt status under section 501(c)(3), arguing that it was entitled to a pre-revocation judicial hearing. The IRS had revoked the organization's exemption retroactively due to its fundraising practices. The Tax Court, relying on the precedent set by Bob Jones University v. Simon, held that the IRS's revocation process did not violate due process rights. The court emphasized that the organization had adequate post-revocation judicial remedies available, and that the IRS's interest in efficient tax administration outweighed any need for pre-revocation hearings.

Facts

The United Cancer Council, Inc. was granted tax-exempt status under section 501(c)(3) in 1969. Facing a budget crisis in 1984, it entered into a fundraising agreement with Watson and Hughey Company. The IRS reviewed the organization's activities and financial records for 1986 and 1987, and on November 2, 1990, revoked its tax-exempt status retroactively to June 11, 1984, citing concerns over its fundraising practices. The organization filed for bankruptcy in 1990 and sought a declaratory judgment to restore its exempt status, arguing that the revocation violated its due process rights.

Procedural History

The IRS issued a notice of revocation on November 2, 1990, effective June 11, 1984. The United Cancer Council, Inc. filed for bankruptcy in 1990 and, after the automatic stay was lifted, initiated a declaratory judgment action under section 7428 in the U. S. Tax Court on January 30, 1991. The organization moved for summary judgment, arguing that the IRS's revocation without a pre-revocation judicial hearing violated its due process rights. The Tax Court denied the motion for summary judgment.

Issue(s)

1. Whether the IRS's revocation of the United Cancer Council, Inc. 's tax-exempt status without a pre-revocation judicial hearing violated the organization's rights to procedural due process under the Fifth Amendment.

Holding

1. No, because the IRS's revocation of the tax-exempt status did not violate the organization's due process rights. The Tax Court found that the organization had

adequate post-revocation judicial remedies available, and the IRS's interest in efficient tax administration outweighed any need for pre-revocation hearings.

Court's Reasoning

The Tax Court relied heavily on the Supreme Court's decision in Bob Jones University v. Simon, which held that no pre-revocation judicial hearing was required before the IRS revoked a favorable ruling letter. The court reasoned that the organization had access to judicial review post-revocation through the Tax Court or by filing a refund suit. The court also noted that the IRS's interest in protecting the tax system from premature judicial interference was significant. The court rejected the organization's arguments that its First Amendment rights were infringed or that it had a property interest in the ruling letter that required a pre-revocation hearing. The court emphasized that the organization's contributors retained deduction protection during the pendency of the litigation under section 7428(c).

Practical Implications

This decision clarifies that organizations do not have a right to a pre-revocation judicial hearing before the IRS revokes their tax-exempt status. Organizations must rely on post-revocation judicial remedies, such as declaratory judgment actions under section 7428 or deficiency proceedings. The ruling underscores the importance of the IRS's interest in efficient tax administration and sets a precedent for similar cases. It may affect how organizations structure their fundraising activities to ensure compliance with IRS regulations. Subsequent cases have followed this precedent, reinforcing the IRS's authority to revoke exempt status without prior judicial review.

