Research Corp. v. Commissioner, 138 T. C. 192 (U. S. Tax Court 2012)

In a significant ruling, the U. S. Tax Court determined that Research Corp. , a tax-exempt organization under I. R. C. § 501(c)(3), was not liable for a 20% excise tax on pension plan reversions under I. R. C. § 4980. The decision hinged on the interpretation of whether an organization that has paid unrelated business income tax remains exempt from income tax under Subtitle A, affecting how tax-exempt entities manage pension plan terminations and the associated tax implications.

Parties

Research Corporation, a New York nonprofit corporation, was the petitioner in this case. The Commissioner of Internal Revenue was the respondent. Research Corporation maintained its status as petitioner throughout the litigation, while the Commissioner was the respondent at all stages.

Facts

Research Corporation, established in 1912 and operating as a nonprofit, has been exempt from federal income tax under I. R. C. § 501(c)(3) since its inception. In 1961, Research Corporation established the Research Corporation Employees Pension Plan (the Plan). The Plan was terminated in 2002, resulting in a direct transfer of $1,470,465 to a qualified replacement plan under I. R. C. § 4980(d) and a reversion of $4,411,395 in cash and property to Research Corporation. Research Corporation reported a reversion amount of $14,055 and paid $2,811 in excise tax pursuant to I. R. C. § 4980(a). The Commissioner issued a notice of deficiency, asserting that the entire reversion was subject to the excise tax because Research Corporation had paid unrelated business income tax in certain years, which the Commissioner argued disqualified it from the tax exemption under I. R. C. § 4980(c)(1)(A).

Procedural History

Research Corporation filed a Form 5330, Return of Excise Taxes Related to Employee Benefit Plans, on August 22, 2003, reporting a reversion of $14,055 and paying $2,811 in excise tax. On January 22, 2010, the Commissioner issued a statutory notice of deficiency, determining a deficiency of $879,468 in excise tax for 2003. Research Corporation timely petitioned the U. S. Tax Court for redetermination of the deficiency. The Tax Court, after considering the parties' arguments, held that Research Corporation was not liable for the excise tax under I. R. C. § 4980(a) but lacked jurisdiction to order a refund of the overpayment.

Issue(s)

Whether an organization that has paid unrelated business income tax in certain years remains exempt from excise tax under I. R. C. § 4980(a) on a reversion from a terminated employee pension plan, given the statutory language in I. R. C. §

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4980(c)(1)(A) that exempts employers who have, at all times, been exempt from tax under Subtitle A?

Rule(s) of Law

I. R. C. § 4980(a) imposes a 20% excise tax on the amount of any employer reversion from a qualified plan, as defined in I. R. C. § 4980(c)(1). A "qualified plan" is defined as any plan meeting the requirements of I. R. C. § 401(a) or § 403(a), "other than a plan maintained by an employer if such employer has, at all times, been exempt from tax under Subtitle A. " I. R. C. § 501(b) states that an organization exempt from taxation under I. R. C. § 501(a) "shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes. "

Holding

The U. S. Tax Court held that Research Corporation has, at all times, been exempt from tax under Subtitle A and thus is not liable for the excise tax imposed by I. R. C. § 4980(a) on the reversion from its terminated employee pension plan. The Court further held that it lacked jurisdiction to award Research Corporation a refund of its overpayment of excise tax.

Reasoning

The Court's reasoning focused on the interpretation of I. R. C. § 4980(c)(1)(A) and I. R. C. § 501(b). The Court found that the language in I. R. C. § 4980(c)(1)(A) was clear and unambiguous, requiring the employer to have been exempt from tax under Subtitle A at all times. The Court emphasized that I. R. C. § 501(b) provides that an organization exempt under I. R. C. § 501(a) remains exempt for purposes of any law referring to organizations exempt from income taxes, despite any unrelated business income tax paid. This interpretation was supported by the Court's view that applying the Commissioner's reading of the statute would lead to absurd results in other contexts, such as the applicability of I. R. C. § 6672(e) and I. R. C. § 457. The Court rejected the Commissioner's reliance on legislative history, asserting that the statutory language was clear and did not require further interpretation. The Court also considered the limitations on its jurisdiction to award a refund, concluding that none of the conditions under I. R. C. § 6512(b)(3) were met to allow such an award.

Disposition

The U. S. Tax Court entered a decision for Research Corporation as to the excise tax but not as to the overpayment or refund.

Significance/Impact

This case is significant for clarifying the scope of the exemption from excise tax under I. R. C. § 4980 for tax-exempt organizations. The ruling establishes that an

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organization’s payment of unrelated business income tax does not affect its exemption status under I. R. C. § 4980(c)(1)(A), providing clarity for tax-exempt entities managing pension plan terminations. The decision also underscores the limited jurisdiction of the Tax Court in refund matters, impacting how such cases are litigated. Subsequent courts have referenced this case when interpreting similar statutory provisions, and it has practical implications for tax planning and compliance for nonprofit organizations.

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