

Bond Case Briefs

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Mayo Clinic v. United States

United States Court of Appeals, Eighth Circuit - May 13, 2021 - F.3d - 2021 WL 1916000

Taxpayer, a Minnesota nonprofit corporation and tax-exempt organization that was the parent organization of several hospitals, clinics, and a college of medicine and science comprised of five distinct medical schools that offered M.D., Ph.D., and other degrees, as well as residencies, fellowships, and continuing medical education, brought tax refund suit against the government, alleging that it qualified as an educational organization and thus was entitled to a tax exemption for certain passive income.

The United States District Court for the District of Minnesota granted summary judgment for taxpayer. Government appealed.

The Court of Appeals held that:

- Taxpayer had to be educational organization, i.e. tax-exempt organization whose primary activity was education, to be eligible for unrelated business income tax (UBIT) exemption, and
- Factual issue existed as to whether taxpayer qualified as educational organization, and thus was entitled to tax refund for taxes paid on certain passive income.

Merely carrying on charitable or educational purposes is not enough to qualify as an educational organization, and thus be entitled to a tax exemption for certain passive income, given the faculty, curriculum, students, and place requirements in the governing statute; the taxpayer still must meet the essential statutory elements, even if its primary function need not be presentation of formal instruction.

Genuine issue of material fact existed as to whether taxpayer qualified as educational organization, and thus was entitled to tax refund for taxes paid on certain passive income, precluding summary judgment in tax refund suit against government alleging that it qualified as educational organization and thus was entitled to unrelated business income tax (UBIT) exemption.

A taxpayer is not disqualified from being an educational organization on the basis that some of its educational purposes and functions also fall within other charitable categories, and vice versa, but the presence of a single non-educational purpose, if substantial in nature, will destroy the unrelated business income tax (UBIT) exemption regardless of the number or importance of truly educational purposes.