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Charleston Area Medical Center, Inc. v. United States

United States Court of Federal Claims - July 31, 2018 - Fed.Cl. - 2018 WL 3629294

Two nonprofit medical centers brought putative class action against the United States, seeking to recover statutory interest paid at higher, standard rate, rather than lower corporate rate, for their tax refunds.

The government moved for judgment on the pleadings, and medical centers moved for summary judgment.

The District Court held that nonprofit medical centers were “corporations” subject to lower corporate interest rate on tax refunds.

Nonprofit medical centers, which were incorporated under provisions of state law, were “corporations” within meaning of the Internal Revenue Code (IRC), and were thus subject to lower corporate interest rate on refunds of the employer portion of Federal Insurance Contributions Act (FICA) taxes they paid for medical residents whom IRS subsequently determined were students exempt from such taxes; common usage and definition, IRC’s own definition, structure of the specific statutory provision at hand, and use of the term in the IRC as a whole, all indicated that term “corporation” in interest rate provision of the IRC plainly encompassed both for-profit and not-for-profit corporations.

District court would decline to look to Treasury regulations that formerly set forth IRS’s views on the essential characteristics of a corporate entity, so as to find that nonprofit medical centers were not “corporations” subject to lower corporate interest rate on refund of employer portion of Federal Insurance Contributions Act (FICA) taxes they paid for medical residents whom IRS subsequently determined were student exempt from such taxes; medical centers were unambiguously “corporations” under the definition in Internal Revenue Code (IRC) section governing statutory interest on tax refunds, regulations upon which medical centers relied were repealed and superseded by “check the box” regulations that harmonized with the foregoing interpretation of the statutory interest provision, and even if the now-superseded regulations had remained in effect, they would not apply to medical centers, since they were incorporated under state law.