



TaxNewsFlash

Exempt Organizations

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Eighth Circuit: Mayo Clinic was “educational organization”

The U.S. Court of Appeals for the Eighth Circuit on July 25, 2025, affirmed the district court’s decision that the Mayo Clinic (Mayo) was an “educational organization” described in section 170(b)(1)(A)(ii) because it had a substantial educational purpose and no substantial noneducational purpose during the relevant tax years. Therefore, Mayo is entitled to a refund of unrelated business income tax (UBIT) paid in prior years after the IRS denied that it qualified for an exception from being taxed on certain debt-financed income under section 514(c)(9), an exception that is only available for educational organizations and certain other “qualified organizations.”

The case is: *Mayo Clinic v. United States*, No. 23-2246 (8th Cir. July 25, 2025). Read the Eighth Circuit’s [decision](#).

Background

Mayo is a tax-exempt organization described in section 501(c)(3) and the parent organization of several world-renowned hospitals, clinics, and a college of medicine and science. From its early days, more than 100 years ago, Mayo has engaged in treating patients and training medical professionals. After conducting an audit, the IRS asserted in 2009 that Mayo owed UBIT on certain income it received from partnerships because it was not an “educational organization” described in section 170(b)(1)(A)(ii) and therefore was not entitled to an exception in the unrelated debt-financed income rules available only to educational organizations and certain other “qualified organizations” (“qualified organization exception”). Specifically, applying two tests from the applicable regulation, the IRS determined that Mayo was not an educational organization because (1) Mayo’s primary function was not the presentation of formal instruction, and (2) its noneducational activities were more than merely incidental to its educational activities.

Mayo paid the tax and filed an action in federal district court. In August 2019, the district court granted summary judgment for Mayo, finding that it was an “educational organization” and therefore qualified for the qualified organization exception and was entitled to an \$11.5 million UBIT refund. The district court further concluded that because Congress did not include a primary-function requirement in the relevant statute, Treasury exceeded its authority by including such a requirement in the regulations.

The IRS appealed to the Eighth Circuit, which reversed and remanded the district court’s decision in May 2021, concluding that the regulations were valid, but only in part, and that application of the statute as reasonably construed by the regulations to Mayo’s tax years could not be determined as a matter of law by summary judgment. The Eighth Circuit agreed with the district court that Treas. Reg. § 1.170A-9(c)(1) “adds unreasonable conditions to the statutory requirement,” but only by limiting “educational organizations” to those principally providing “formal instruction.” By contrast, the terms “primary function” and “merely incidental” activities in the regulation “have a valid role in interpreting the statute,” the Eighth Circuit concluded. More specifically, the Eighth Circuit noted that, to qualify as an

“educational organization” within the meaning of section 170(b)(1)(A)(ii), an organization’s primary purpose must be “educational” and its noneducational activities must be merely incidental to that primary purpose. The IRS nonacquiesced to the Eighth Circuit’s decision in November 2021.

Following a week-long bench trial, the district court concluded in November 2022 that “primary” in this context means “substantial.” Based on an extensive factual record, the court found that Mayo had a substantial educational purpose, as demonstrated by its organization and governance; its extensive educational offerings and day-to-day operations; and its finances. In addition, the court found that Mayo had no substantial noneducational purpose during the relevant tax years because its educational functions were “inextricably intertwined” with its clinical and research functions. [Read TaxNewsFlash](#)

The government appealed the district court’s interpretation of “primary” to mean “substantial” in this context, as well as its conclusion that Mayo’s patient care was not a substantial, noneducational purpose. The Eighth Circuit found that the district court did not err in its interpretation of “primary” in this context, and, even if the court adopted the government’s interpretation of “primary,” the district court was not foreclosed from finding, as it did, that Mayo’s substantial patient care activities were *not* noneducational, given Mayo’s careful integration of education and clinical practice. The Eighth circuit explained that “[p]atient care at Mayo cannot be completely detached from medical education” and although “the trial evidence supports finding that patient care is a substantial function at Mayo. . . . the weight of evidence supports the [district] court’s conclusion that patient care is not noneducational at Mayo.” Finally, in addressing the government’s argument that Mayo was not an educational organization described in 170(b)(1)(A)(ii) because it was a hospital or medical research organization described in 170(b)(1)(A)(iii), the Eighth Circuit noted that “[t]he statute does not say that an organization may only qualify under one §170(b)(1)(A) category. . . .”

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