

Eighth Circuit Affirms Mayo Clinic's "Educational Organization" Status and UBTI Refund

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On July 25, 2025, the U.S. Court of Appeals for the Eighth Circuit affirmed the District Court decision holding that the [Mayo Clinic](#) is entitled to an \$11.5 million refund of certain unrelated business income taxes imposed on it due to it being an "educational organization" under section 170(b)(1)(A)(ii).[\[1\]](#)

We previously discussed the District Court's ruling [here](#). As a refresher, section 514(c)(9) generally provides an exemption from tax on unrelated business taxable income ("UBTI") related to certain acquisition indebtedness for "qualified organizations," including educational organizations described in section 170(b)(1)(A)(ii) (the "UBTI exemption").[\[2\]](#)

In this context, an organization is considered educational if its "primary function" is educational and its noneducational activities are "merely incidental" to the educational activities.[\[3\]](#)

The District Court found that the Mayo Clinic was an educational organization that qualifies for the UBTI exemption and was, therefore, entitled to a refund of certain of its UBTI paid in prior years.[\[4\]](#) The U.S. government, seeking to overturn the District Court's ruling, filed an appeal with the Eighth Circuit.

"Primary" Purpose

On appeal, the government's first argument was that the Mayo Clinic did not qualify for the UBTI exemption because education was not its "principal or most important purpose." According to the government, it is not enough for education to be only a substantial part of the organization's overall purpose.[\[5\]](#) This argument was in direct response to the District Court's holding that "primary" means "substantial" for purposes of determining if an organization is an educational organization under section 170(b)(1)(A)(ii).

The Eighth Circuit adopted the District Court's interpretation on this point, relying on Supreme Court precedent established in *Board of Governors v. Agnew*.^[6] In *Agnew*, the Supreme Court considered whether a firm was "primarily engaged" in underwriting where its gross income from underwriting comprised at most 39% of its income. The Supreme Court concluded that in some cases the term "primary" is synonymous with "essentially" or "fundamentally," such that an organization's activity can be "primary" even if it is not the organization's singular most important activity.

The Eighth Circuit agreed that the reasoning in *Agnew* was applicable to the Mayo Clinic. Further, the Eighth Circuit upheld the District Court's conclusion that the Mayo Clinic's education, patient care, and research functions are inextricably intertwined, thus making it difficult to pinpoint a singular, predominant activity for the Mayo Clinic.^[7] The Eighth Circuit also emphasized that interpreting "primary" to mean "substantial" better aligns with the Treasury Regulations which states that an "educational organization" includes "[m]useums, zoos, planetariums, symphony orchestras, and other similar organizations."^[8]

Substantial, Noneducational Purpose

The government's second argument on appeal was that, even if the Mayo Clinic's education programs are substantial, its expansive clinical practice is a substantial noneducational purpose which would disqualify it from the UBTI exemption.^[9] To support this argument, the government highlighted the Mayo Clinic's nationwide hospital network and extensive patient care activities. The government asserted that the Mayo Clinic's function of providing medical care to patients was analogous to the promotion of a profitable business community, which would cause an issue under *Better Business Bureau v. United States*, 326 U.S. 279 (1945).

Both the District Court and the Eighth Circuit rejected this characterization. After hearing extensive evidence, the District Court found that while “patient care is certainly [a] substantial [purpose], it is not noneducational at [the] Mayo [Clinic].”^[10] The record showed no “substantial clinical practice function” that existed independent of educating the Mayo Clinic’s students and fellows.^[11] The Eighth Circuit agreed with the District Court’s finding that the Mayo Clinic’s careful integration of patient care and education had resulted in a patient care function that is not noneducational and cited supporting case law that demonstrates (i) a single activity can be carried on for more than one purpose and (ii) an organization’s commercial activities can further a tax-exempt purpose.^[12]

Finally, the government argued that the Mayo Clinic should be treated as a hospital or medical research organization rather than as an educational organization, noting that hospitals and research institutions are not listed as qualified organizations eligible for the UBTI exemption.^[13] The Eighth Circuit dismissed this categorical approach, noting that the Mayo Clinic’s characteristics can qualify it as a hospital and as an educational institution; the fact that it meets the latter definition is what entitles it to the UBTI exemption.^[14]

Going Forward

Looking ahead, this decision may influence how multi-purpose tax-exempt institutions are evaluated as educational organizations under section 170(b)(1)(A)(ii), potentially enabling more of these hybrid institutions to claim the UBTI exemption. However, the Eighth Circuit’s decision is closely tied to what may be considered to be unique facts surrounding the Mayo Clinic and does not necessarily establish broad new criteria for determining what constitutes an educational organization. As such, the Eighth Circuit may be suggesting a very fact-specific approach, and any given institution seeking similar treatment may need to present evidence showing that educational purposes and activities are intertwined with all or most of its other activities—at least to a degree similar to what the Mayo Clinic presented.

^[1] All references to section numbers are to the Internal Revenue Code, unless otherwise specified.

[2] Subject to certain exceptions, indebtedness incurred by a qualified organization in acquiring or improving any real property will fall under the UBTI exemption. For this purpose, an interest in a mortgage is not treated as real property.

[3] Treas. Reg. § 1.170A-9(c)(1)(c).

[4] See *Mayo Clinic v. United States*, 642 F. Supp. 3d 831 (D. Minn. 2022).

[5] *Mayo Clinic v. United States*, No. 23-2246, 2025 BL 261039 (8th Cir. July 25, 2025) at 7-9.

[6] *Id.* at 8-9, citing *Agnew*, 329 U.S. 441 (1947).

[7] *Id.* at 9.

[8] *Id.*; Treas. Reg. § 1.501(c)(3)-1(d)(3)(ii), Example 4.

[9] 2025 BL 261039 at 10.

[10] *Id.*

[11] *Id.* at 11.

[12] *Id.* at 9-12, citing *Living Faith, Inc. v. Commissioner*, 950 F.2d 365 (7th Cir. 1991) and *Dumaine Farms v. Commissioner*, 73 T.C. 650 (1980).

[13] *Id.* at 13-14.

[14] Judge Grasz authored a concurring opinion in this case, expressing concern over equating “primary” with “substantial” under the primary function requirement. He emphasized that such an interpretation conflicts with established precedent, which requires tax exemptions to be narrowly construed. Additionally, he argued that the reasoning in *Agnew* was unpersuasive because it lacked a textual approach to statutory interpretation. Nevertheless, Judge Grasz concurred in the judgment, relying on the district court’s factual finding that, even if “primary” were interpreted to mean “most important,” it would still conclude that education is the Mayo Clinic’s principal purpose.

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