Fotochrome, Inc. (Successor by Merger to Fotochrome Color Corp.), et al. Petitioners v. Commissioner of Internal Revenue, Respondent, 57 T. C. 842; 1972 U. S. Tax Ct. LEXIS 157 (1972)

The Tax Court retains concurrent jurisdiction with bankruptcy courts to redetermine tax deficiencies when a taxpayer files for bankruptcy after initiating a Tax Court case.

Summary

In Fotochrome, Inc. v. Commissioner, the U. S. Tax Court ruled that it did not lose jurisdiction over tax deficiency cases when a taxpayer, Fotochrome, Inc. , filed for bankruptcy under Chapter XI after the Tax Court proceedings had begun. The court emphasized the concurrent jurisdiction between the Tax Court and the bankruptcy court, allowing both to adjudicate the tax liabilities independently. This decision was based on the legislative intent behind Section 6871(b) of the Internal Revenue Code, which aims to ensure that the specialized competence of the Tax Court in tax matters is not undermined by subsequent bankruptcy filings.

Facts

Fotochrome, Inc. , the successor by merger to several corporations, was assessed tax deficiencies by the Commissioner of Internal Revenue. The company and related individuals filed petitions with the Tax Court for redetermination of these deficiencies. After the Tax Court proceedings had commenced, Fotochrome filed for bankruptcy under Chapter XI. The Commissioner made immediate assessments and filed a proof of claim in the bankruptcy court, which then denied a motion to adjourn the hearing on Fotochrome’s objections to the claim until the Tax Court could determine the deficiencies.

Procedural History

The Tax Court cases were initiated with petitions filed on March 7, 1968, and were consolidated for trial on October 21, 1968. After Fotochrome filed for bankruptcy on March 26, 1970, the Commissioner made immediate assessments on May 27, 1970, and filed a proof of claim in the bankruptcy proceeding. The bankruptcy court denied a motion to adjourn the hearing on Fotochrome’s objections to the claim until the Tax Court could determine the deficiencies.

Issue(s)

1. Whether the Tax Court loses jurisdiction over a tax deficiency case when a taxpayer files for bankruptcy after initiating Tax Court proceedings.

Holding

1. No, because Section 6871(b) of the Internal Revenue Code establishes concurrent

jurisdiction between the Tax Court and the bankruptcy court, allowing the Tax Court to continue its proceedings despite the bankruptcy filing.

Court's Reasoning

The Tax Court's decision was based on the legislative history and intent of Section 6871(b), which was designed to preserve the Tax Court's jurisdiction even after a taxpayer files for bankruptcy. The court reviewed its own precedent and the legislative history of the Revenue Act of 1926, which indicated Congress's intent for concurrent jurisdiction. The court also considered the relevant sections of the Bankruptcy Act but found no indication that they were meant to abrogate the concurrent jurisdiction established by Section 6871(b). The court emphasized its specialized competence in tax matters and its role in redetermining deficiencies, distinct from the bankruptcy court's role in adjudicating claims against the debtor's estate.

Practical Implications

This decision ensures that taxpayers cannot use bankruptcy filings to circumvent the Tax Court's jurisdiction over tax deficiency cases. It allows the Tax Court to continue its proceedings, providing a specialized forum for tax disputes. Practitioners should be aware that filing for bankruptcy after initiating a Tax Court case does not automatically shift the case to the bankruptcy court. This ruling impacts how tax attorneys and bankruptcy practitioners coordinate their strategies in cases involving both tax deficiencies and bankruptcy proceedings. It also influences how the IRS handles tax claims in bankruptcy, as it can continue to pursue its claims in the Tax Court. Subsequent cases have followed this precedent, reinforcing the principle of concurrent jurisdiction.