Wilbur v. Commissioner, 64 T. C. 623 (1975)

The Tax Court retains jurisdiction over a transferee liability dispute even if the taxpayer is in bankruptcy, unless the bankruptcy court assumes jurisdiction over the tax matter.

Summary

In Wilbur v. Commissioner, the Tax Court addressed whether it could retain jurisdiction over a transferee liability dispute when the taxpayer filed for bankruptcy after receiving a statutory notice but before the Commissioner assessed the tax or filed a proof of claim. The court, relying on the precedent set in Samuel J. King, determined that it would retain jurisdiction unless the bankruptcy court explicitly took jurisdiction over the tax controversy. This ruling ensures that taxpayers receive an independent hearing on their tax liabilities before payment, either in the Tax Court or the bankruptcy court, depending on the actions of the Commissioner and the jurisdiction of the bankruptcy court.

Facts

On February 20, 1974, the petitioner was adjudicated a bankrupt after filing a voluntary petition in bankruptcy. On March 8, 1974, the Commissioner mailed a statutory notice of liability to the petitioner as a transferee of After Hours, Inc. , for corporate income taxes. The petitioner filed a petition with the Tax Court on June 5, 1974. The Commissioner filed a proof of claim for taxes in the bankruptcy proceeding on September 17, 1974, but this claim did not include the transferee liability. The bar date for filing proofs of claim was September 28, 1974, and the Commissioner did not assess or file a proof of claim for the transferee liability.

Procedural History

The petitioner filed a motion to dismiss the Tax Court proceeding for lack of jurisdiction on September 30, 1974, citing section 6871(b) of the Internal Revenue Code. The Tax Court reviewed the motion, considering previous decisions such as Samuel J. King and Pearl A. Orenduff, which dealt with similar issues of jurisdiction in the context of bankruptcy proceedings.

Issue(s)

1. Whether the Tax Court has jurisdiction to redetermine a transferee liability when the petition was filed after the taxpayer’s bankruptcy but before the Commissioner assessed the liability or filed a proof of claim?

Holding

1. Yes, because the Tax Court retains jurisdiction unless the bankruptcy court takes jurisdiction over the tax matter, as established by the precedent in Samuel J. King.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court’s decision was based on the principle established in Samuel J. King, which held that the Tax Court retains jurisdiction over a tax dispute unless the Commissioner takes specific actions that shift the jurisdiction to the bankruptcy court, such as assessing the tax or filing a proof of claim. The court noted that section 6871(b) of the Internal Revenue Code, which the petitioner cited, does not automatically divest the Tax Court of jurisdiction upon the taxpayer’s bankruptcy. Instead, it requires the Commissioner to take affirmative steps to move the controversy to the bankruptcy court. The court emphasized the legislative history of section 6871, which indicates that Congress intended for taxpayers to have an independent hearing before payment, either in the Tax Court or the bankruptcy court. The court also considered subsequent amendments to the Bankruptcy Act but found that these did not automatically confer jurisdiction on the bankruptcy court over the tax matter without a specific action by the Commissioner or a complaint filed under section 17(c)(1) of the Bankruptcy Act.

Practical Implications

This decision underscores the importance of the Tax Court’s role in providing taxpayers an opportunity for an independent hearing on tax liabilities. It clarifies that the Tax Court retains jurisdiction over tax disputes even when a taxpayer is in bankruptcy, unless the bankruptcy court explicitly assumes jurisdiction. This ruling affects how attorneys should handle similar cases, ensuring that they consider the actions of the Commissioner and the potential jurisdiction of the bankruptcy court. The decision also highlights the need for clear communication between the Tax Court and the bankruptcy court to avoid jurisdictional conflicts. For taxpayers, it means they have a better chance of having their tax liabilities adjudicated before payment, which is crucial for protecting their rights during bankruptcy proceedings. Subsequent cases have applied this ruling to maintain the Tax Court’s jurisdiction unless specific actions by the Commissioner or the bankruptcy court indicate otherwise.

© 2025 SCOTUSreports.com. All rights reserved.