Tatum v. Commissioner, 69 T. C. 81 (1977)

The Tax Court lacks jurisdiction over tax deficiencies and additions to tax when a taxpayer files for bankruptcy under Chapter XI after receiving a notice of deficiency but before filing a petition with the Tax Court.

Summary

In Tatum v. Commissioner, the Tax Court held that it lacked jurisdiction over income tax deficiencies and additions to tax for James E. Tatum, who filed for bankruptcy under Chapter XI after receiving a notice of deficiency but before filing his Tax Court petition. The court reasoned that under IRC section 6871(b), no petition for redetermination of such taxes can be filed with the Tax Court after a bankruptcy petition is filed. This decision overruled prior cases that allowed Tax Court jurisdiction in similar situations, emphasizing the bankruptcy court's broad jurisdiction to determine tax liabilities even when no proof of claim is filed by the IRS.

Facts

James E. Tatum and Elizabeth Tatum, a married couple, received a notice of deficiency from the IRS on September 3, 1976, for tax years 1970-1973. On October 4, 1976, James filed a Chapter XI bankruptcy petition. Subsequently, on December 3, 1976, the Tatums filed a petition with the Tax Court seeking redetermination of the deficiencies and additions to tax. The IRS moved to dismiss the case against James for lack of jurisdiction due to his bankruptcy filing.

Procedural History

The IRS issued a notice of deficiency on September 3, 1976. James filed for bankruptcy under Chapter XI on October 4, 1976. The Tatums filed their Tax Court petition on December 3, 1976. The IRS moved to dismiss the case against James on February 22, 1977, arguing lack of jurisdiction due to the bankruptcy filing. The Tax Court heard arguments on May 9, 1977, and issued its opinion on October 25, 1977.

Issue(s)

1. Whether the Tax Court lacks jurisdiction over deficiencies when a taxpayer files for bankruptcy under Chapter XI after receiving a notice of deficiency but before filing a petition with the Tax Court.
2. Whether the Tax Court lacks jurisdiction over additions to tax under the same circumstances.

Holding

1. Yes, because under IRC section 6871(b), no petition for redetermination of deficiencies can be filed with the Tax Court after a Chapter XI bankruptcy petition is

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filed, even if the arrangement has not been confirmed.
2. Yes, because the Tax Court lacks jurisdiction over additions to tax under IRC section 6871(b) for the same reason, and the bankruptcy court has jurisdiction to determine these liabilities.

Court's Reasoning

The court reasoned that IRC section 6871(b) clearly prohibits the filing of a Tax Court petition for redetermination of tax deficiencies and additions to tax after a bankruptcy petition is filed. The court rejected the argument that the arrangement under Chapter XI must be confirmed before the Tax Court loses jurisdiction, stating that the filing of the bankruptcy petition itself triggers the jurisdictional bar. The court also noted that the bankruptcy court has broad jurisdiction to determine tax liabilities, even without a filed proof of claim, under sections 11(a)(2A) and 35(c) of the Bankruptcy Act. The court overruled prior cases that allowed Tax Court jurisdiction in similar situations, citing changes in bankruptcy law that expanded the bankruptcy court's jurisdiction over tax matters.

Practical Implications

This decision significantly impacts how tax disputes are handled in bankruptcy cases. Taxpayers who receive a notice of deficiency and subsequently file for bankruptcy under Chapter XI cannot seek redetermination of their tax liabilities in the Tax Court. Instead, they must resolve these issues in the bankruptcy court, which has jurisdiction to determine the amount and legality of tax liabilities, even if no proof of claim is filed by the IRS. This ruling simplifies the process for the IRS by centralizing tax disputes in bankruptcy proceedings but may limit taxpayers' options for challenging tax assessments. Subsequent cases have followed this precedent, reinforcing the primacy of bankruptcy courts in handling tax disputes during bankruptcy proceedings.

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