

## ***Adams v. Commissioner, 72 T. C. 81 (1979)***

The U. S. Tax Court lacks jurisdiction to impose a second-level excise tax under Section 4941(b)(1) when the tax's imposition depends on the finality of the court's decision.

### **Summary**

The case of *Adams v. Commissioner* dealt with the imposition of excise taxes for acts of self-dealing between a private foundation and the petitioner. The U. S. Tax Court had previously found the petitioner liable for a first-level 5% excise tax under Section 4941(a)(1). The issue at hand was whether the court could also impose a second-level 200% tax under Section 4941(b)(1) if the act of self-dealing was not corrected within the 'correction period.' The court held that it lacked jurisdiction to impose the second-level tax because the tax could not be considered 'imposed' until after the correction period ended, which would only occur after the court's decision became final. This ruling effectively nullified the second-level tax for petitioners who filed in the Tax Court, highlighting significant statutory ambiguities and procedural challenges.

### **Facts**

Paul W. Adams was assessed excise taxes for self-dealing transactions between a private foundation and Adams and his wholly-owned corporation, Automatic Accounting Co. The Commissioner asserted deficiencies for both first-level and second-level excise taxes under Section 4941. The Tax Court had previously sustained the first-level tax liability but questioned its authority to impose the second-level tax, which depends on the act of self-dealing not being corrected within the correction period, a period that ends after the court's decision becomes final.

### **Procedural History**

The Commissioner mailed statutory notices of deficiency to Adams on May 17, 1974, asserting both first-level and second-level excise tax liabilities. Adams filed petitions with the Tax Court. On May 30, 1978, the court found Adams liable for the first-level tax but deferred ruling on the second-level tax due to jurisdictional concerns. After further briefs and arguments, the court issued its supplemental opinion on April 11, 1979, addressing the second-level tax issue.

### **Issue(s)**

1. Whether the U. S. Tax Court has jurisdiction to impose a second-level excise tax under Section 4941(b)(1) when the imposition of such tax depends on the finality of the court's decision.
2. Whether the transitional rule in Section 53. 4941(f)-1(b)(2) of the Foundation Excise Tax Regulations applies to the acts of self-dealing in question.

## **Holding**

1. No, because the second-level tax under Section 4941(b)(1) is not imposed until the expiration of the correction period, which occurs after the court's decision becomes final. Thus, there is no 'deficiency' as defined by Section 6211(a) at the time of the statutory notice.
2. No, upon reconsideration, the transitional rule does not apply to the acts of self-dealing involving the sale of property #2, making Adams liable for the first-level tax under Section 4941(a)(1) for that transaction.

## **Court's Reasoning**

The court reasoned that the second-level tax under Section 4941(b)(1) could not be imposed until the correction period ended, which would only happen after the court's decision became final. This created a jurisdictional issue because a 'deficiency' must be imposed at the time of the statutory notice. The court also noted the statutory scheme's inherent flaws, such as the difficulty in determining the 'amount involved' for the second-level tax due to its dependency on the highest fair market value during the correction period. The court rejected the Commissioner's proposal to impose the tax at the time of the act of self-dealing and abate it if corrected, as it would require rewriting the statute. The court also modified its previous opinion regarding the applicability of the transitional rule, holding it did not apply to the sale of property #2. The court's decision was supported by a concurring opinion emphasizing the need for judicial review of corrective actions, and dissenting opinions arguing for interpretations that would uphold the statute's intent.

## **Practical Implications**

The Adams decision has significant practical implications for tax practitioners and taxpayers involved in similar cases. It effectively nullifies the second-level excise tax for petitioners who file with the Tax Court, highlighting the need for legislative reform to address the statutory ambiguities. Practitioners must be aware of the jurisdictional limits of the Tax Court and consider alternative forums for resolving disputes over second-level taxes. The decision also affects how similar cases should be analyzed, emphasizing the importance of the timing of tax imposition and the definition of 'deficiency.' Later cases and legislative amendments may need to address the issues raised by Adams, potentially affecting the enforcement of excise taxes related to self-dealing with private foundations.