***Gardner v. Commissioner, 75 T. C. 475 (1980)***

An IRS settlement is not enforceable unless it is approved by an official with delegated final settlement authority.

**Summary**

In Gardner v. Commissioner, the Tax Court ruled that a settlement agreement between the Gardners and an IRS appeals officer was not enforceable because it lacked the approval of an IRS official with final settlement authority. The Gardners had agreed to a reduced tax deficiency with the appeals officer, but the officer withdrew the settlement before submitting it for review. The court held that the settlement required submission to and consideration by an authorized IRS official, emphasizing the necessity of following IRS procedural rules for settlements to be binding.

**Facts**

The Gardners contested a $37,991 tax deficiency and a $3,799 addition to tax assessed by the IRS. An appeals officer, Gerald T. McMahon, from the IRS Appeals Office in Boston, met with the Gardners' attorney and agreed to settle the case at a reduced deficiency of $10,706 and no addition to tax. The Gardners signed the settlement stipulation. However, McMahon later decided to withdraw the settlement due to new information about the Gardners' partnership, without submitting it for review by his supervisor, the Associate Chief of Appeals.

**Procedural History**

The Gardners filed a motion for summary judgment in the U. S. Tax Court, seeking enforcement of the settlement agreement. The IRS opposed the motion, arguing that the settlement was never approved by an official with final authority. The Tax Court denied the Gardners' motion for summary judgment, ruling that the settlement was not enforceable without such approval.

**Issue(s)**

1. Whether a settlement agreement between a taxpayer and an IRS appeals officer is enforceable without the approval of an IRS official with final settlement authority.

**Holding**

1. No, because the settlement must be submitted to and considered by an IRS official with delegated final authority over such settlements.

**Court's Reasoning**

The Tax Court reasoned that under IRS procedural rules, only the Regional

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Commissioner or their delegate, such as the Chief or Associate Chief of the Appeals Office, had the authority to approve settlements. The court emphasized that the IRS appeals officer, McMahon, lacked such authority, and the settlement needed to be submitted for review to be binding. The court interpreted the IRS rules to require affirmative action by a reviewing officer, either approving or disapproving the settlement, before it could be considered final. The court cited previous cases to support the necessity of following IRS procedures for settlements to be enforceable, noting that the settlement in this case was never submitted for review and thus could not be enforced.

**Practical Implications**

This decision clarifies that taxpayers and their representatives must ensure that any settlement agreement with the IRS is reviewed and approved by an official with final settlement authority to be enforceable. Practitioners should be cautious about relying on agreements with lower-level IRS employees without confirmation of approval from authorized officials. The ruling impacts how tax disputes are resolved, emphasizing procedural compliance over informal agreements. It may influence future cases involving IRS settlements, requiring careful attention to the delegation of authority within the IRS. Businesses and individuals involved in tax disputes must be aware of these procedural requirements to avoid similar outcomes.

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