Rosenfeld v. Commissioner, 82 T. C. 105 (1984)

The scope of discovery in tax court proceedings is broad, encompassing relevant information even if not in the immediate possession of the party, provided it is accessible through reasonable inquiry.

Summary

In Rosenfeld v. Commissioner, the U. S. Tax Court addressed the scope of discovery in tax disputes, emphasizing the need for parties to engage in reasonable inquiry to fulfill discovery requests. The case involved a tax deficiency dispute where the Commissioner sought documents and answers to interrogatories related to the petitioners' participation in a coal mining partnership. The court held that the intent of the partners is relevant to determining the partnership's profit objective, and that parties must make reasonable efforts to obtain requested information from agents or other partners, even if not in their immediate possession. This ruling clarifies the broad scope of discovery in tax cases and the obligations of parties to comply with such requests.

Facts

The Rosenfelds participated in the Landmark Coal Program (LCP), a Kentucky partnership aimed at exploiting coal deposits. The IRS disallowed deductions claimed by the Rosenfelds related to LCP, asserting that these were part of a tax avoidance scheme. The Commissioner served document and interrogatory requests to the Rosenfelds, who initially failed to comply. After a motion to compel was filed, the Rosenfelds objected, claiming lack of possession and relevance of the requested information.

Procedural History

The IRS issued a notice of deficiency to the Rosenfelds in 1981, leading to a petition in the U. S. Tax Court. The Commissioner's subsequent discovery requests were met with noncompliance, prompting a motion to compel in April 1983. After a hearing in June 1983, the court ordered compliance. The Rosenfelds then moved for reconsideration, which the court granted in part in January 1984, refining the scope of discovery while upholding the principle of broad discovery.

Issue(s)

1. Whether the intent of individual partners is relevant to determining the profit objective of the partnership.
2. Whether a party can object to discovery requests on the basis of lack of possession, custody, or control when the information is accessible through reasonable inquiry.
3. Whether discovery requests can be overly broad and thus outside the permissible scope of discovery.

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Holding

1. Yes, because the intent of individual partners is relevant to establishing the collective intent of the partnership.
2. No, because parties must make reasonable inquiries to obtain requested information from agents or other partners.
3. Yes, because overly broad requests impose an undue burden, though the court may allow them if necessary to ensure all relevant materials are discovered.

Court's Reasoning

The court reasoned that while a partnership's profit objective is determined at the partnership level, the actions, knowledge, and intent of individual partners are crucial in establishing this objective, particularly when partners have significant control over management decisions. The court emphasized the broad scope of discovery under Tax Court Rule 70, which allows for discovery of relevant information even if not in the immediate possession of the party, provided it is accessible through reasonable inquiry. The court rejected the Rosenfelds' objections based on lack of possession, citing the need to inquire from attorneys, accountants, or other agents. Regarding overbreadth, the court acknowledged that while some requests were too broad, it permitted them due to the Rosenfelds' lack of cooperation in narrowing the scope. The court also clarified that previously examined documents by the Commissioner are still subject to discovery.

Practical Implications

This decision underscores the importance of thorough compliance with discovery requests in tax litigation, requiring parties to actively seek out relevant information even if not in their immediate possession. It impacts how attorneys should approach discovery, emphasizing the need for cooperation and reasonable efforts to obtain requested information. The ruling may influence business practices in tax planning, particularly in partnerships, by highlighting the relevance of individual partners' intent in tax audits. Subsequent cases have cited Rosenfeld to support the principle of broad discovery in tax disputes, though the specific application of discovery rules may vary based on the facts and circumstances of each case.

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