

## ***Donald A. Naftel v. Commissioner of Internal Revenue, 85 T. C. 527 (1985)***

The U. S. Tax Court has jurisdiction to consider whether a taxpayer should be credited with refunds issued by the IRS but not received due to misappropriation.

### **Summary**

Donald Naftel claimed that his attorney, Charles Berg, misappropriated his tax refund checks. The IRS had issued these checks based on Naftel's tax returns but included them in calculating a tax deficiency. Naftel argued the deficiency should be reduced by the amount of the unreceived refunds. The IRS moved for partial summary judgment, asserting the Tax Court lacked jurisdiction over this issue. The Tax Court denied the motion, holding it had jurisdiction to determine if Naftel should be credited with the refunds in assessing any deficiency or overpayment. This decision emphasizes the court's broad authority to resolve all issues related to a taxpayer's tax liability for the years in question.

### **Facts**

Donald Naftel invested in a limited partnership, Vandenburg Co. , advised by his attorney Charles Berg. Naftel's tax returns for 1978, 1979, and 1980, prepared by Berg, claimed losses and credits from this investment, resulting in refund checks being issued by the IRS to Berg's address. Naftel never received these refunds. He discovered Berg was under criminal investigation for defrauding clients of their refund checks. The IRS issued a notice of deficiency to Naftel for tax years 1976-1980, calculating the deficiency without accounting for the unreceived refunds.

### **Procedural History**

Naftel petitioned the U. S. Tax Court for a redetermination of the deficiency after receiving the IRS notice. The IRS moved for partial summary judgment, arguing the court lacked jurisdiction to consider Naftel's claim regarding the unreceived refund checks. The Tax Court denied this motion, asserting its jurisdiction over the issue.

### **Issue(s)**

1. Whether the U. S. Tax Court has jurisdiction to consider the question of whether a taxpayer should be credited with refunds issued by the IRS but not received by the taxpayer due to misappropriation?

### **Holding**

1. Yes, because the Tax Court's jurisdiction extends to determining the correct tax liability, which includes considering whether a taxpayer should be credited with refunds issued but not received.

## **Court's Reasoning**

The court reasoned that its jurisdiction is based on the IRS's determination of a deficiency, not the actual existence of one. The Tax Court's authority extends to the entire subject matter of the correct tax for the taxable years in question, including the determination of overpayments. The court cited *Bolnick v. Commissioner* to support its jurisdiction over the issue of unreceived refunds when determining overpayments or deficiencies. It rejected the IRS's argument that a separate statutory scheme for recovering stolen Treasury checks precluded its jurisdiction, emphasizing that Naftel's claim was about his tax liability, not just the checks. The court also noted the importance of judicial economy in resolving all issues in one proceeding.

## **Practical Implications**

This decision clarifies that the Tax Court has broad jurisdiction to consider all issues related to a taxpayer's tax liability, including unreceived refunds. Practitioners should be aware that they can raise such issues in Tax Court proceedings rather than being limited to other recovery methods. This ruling may encourage taxpayers to more frequently challenge deficiencies based on unreceived refunds. It also underscores the need for taxpayers to carefully monitor the handling of their refund checks, especially when using third-party preparers. Subsequent cases have followed this precedent, reinforcing the Tax Court's role in comprehensively resolving tax disputes.