Adler v. Commissioner, 85 T. C. 535 (1985)

A consent to extend the statute of limitations can be valid even if it is limited to specific adjustments related to a taxpayer's distributive share from a partnership.

Summary

In Adler v. Commissioner, the Tax Court upheld the IRS's right to issue a deficiency notice beyond the standard three-year statute of limitations due to a consent agreement executed by the taxpayers. The Adlers had signed Form 872-A, which indefinitely extended the statute for adjustments related to their distributive share from Envirogas Drilling Programs. The court found that errors in reporting tax preference items on their return were substantive and not merely clerical, and thus within the scope of the consent agreement. The decision emphasizes the importance of clear language in consent agreements and the court's strict interpretation of what constitutes a clerical error.

Facts

Charles and Edwina Adler filed their 1978 joint tax return, which included losses from Charles's limited partnership interests in Envirogas Drilling Programs and Perry Drilling 1978, Ltd. Errors were made in reporting tax preference items on Form 4625, specifically regarding depletion and intangible drilling costs. The Adlers signed Form 872-A on January 20, 1982, indefinitely extending the statute of limitations for assessing deficiencies related to adjustments from Envirogas Drilling Programs. On April 14, 1983, the IRS issued a notice of deficiency, which the Adlers contested as untimely.

Procedural History

The Adlers filed a petition with the U. S. Tax Court challenging the IRS's notice of deficiency. The case was submitted based on stipulated facts. The Tax Court found in favor of the Commissioner, holding that the notice was timely under the extended statute of limitations provided by the consent agreement.

Issue(s)

1. Whether the errors in the Adlers' tax return constituted "mathematical or clerical errors" within the meaning of section 6213(f)(2) of the Internal Revenue Code.
2. Whether the IRS's notice of deficiency was timely issued under the extended statute of limitations provided by the consent agreement.

Holding

1. No, because the errors were substantive and not apparent on the face of the return or any attached document.
2. Yes, because the consent agreement specifically allowed for adjustments related

to the Adlers’ distributive share from Envirogas Drilling Programs, and the errors fell within this scope.

Court’s Reasoning

The court reasoned that the errors in reporting tax preference items were not clerical because they were not obvious from the return itself and required substantive interpretation of information provided by Envirogas. The court emphasized that the consent agreement on Form 872-A was valid and specifically covered adjustments to the Adlers’ distributive share from Envirogas, which included the erroneous reporting of tax preference items. The court rejected the Adlers’ argument that the consent was invalid because no corresponding adjustments were made to Envirogas’s return, citing the clear language in the consent agreement that allowed for adjustments based on the taxpayers’ distributive share. The court also noted that the burden of proof regarding the statute of limitations remained with the taxpayers, who failed to show that the consent was invalid.

Practical Implications

This case underscores the importance of precise language in consent agreements extending the statute of limitations. Taxpayers and practitioners must carefully review and understand the scope of any consent agreement, as courts will enforce the agreement’s terms strictly. The decision also clarifies that substantive errors in tax returns, even if made by a preparer, are not considered clerical errors and thus cannot be corrected through summary assessment procedures. Practitioners should be aware that extending the statute of limitations for specific adjustments can be upheld even if no adjustments are made to the underlying entity’s return. This ruling may impact how tax professionals draft and negotiate consent agreements and how they advise clients on the reporting of partnership items.

