

## ***Minahan v. Commissioner, 88 T. C. 492 (1987)***

A taxpayer's refusal to extend the statute of limitations on assessment does not preclude an award of litigation costs if the taxpayer has exhausted available administrative remedies.

### **Summary**

Petitioners sold stock to trusts for their children, valuing it at market price. The IRS audited the transactions, determining a higher value due to control premiums, and sought an extension of the statute of limitations. Petitioners refused and won their case when the IRS conceded. The Tax Court held that petitioners were entitled to litigation costs, ruling that IRS regulations requiring a statute of limitations extension to qualify for such costs were invalid. This decision emphasized that administrative remedies must be genuinely available to taxpayers and that refusing to extend the statute of limitations does not automatically disqualify a taxpayer from recovering litigation costs if they have otherwise exhausted available remedies.

### **Facts**

Petitioners sold unregistered Post Corp. common stock to separate trusts for their offspring at \$22.25 per share, matching the stock exchange value on the date of agreement. Each trust paid partially in cash and partially with an interest-bearing promissory note. The IRS began an audit in February 1984, asserting that the stock should be valued as a control block, resulting in a higher gift tax valuation. On August 31, 1984, the IRS requested petitioners extend the statute of limitations until December 31, 1985, which they refused on October 5, 1984. The IRS issued deficiency notices on November 15, 1984, and later conceded all issues. Petitioners sought litigation costs under section 7430.

### **Procedural History**

The IRS determined deficiencies in petitioners' federal gift taxes and issued notices of deficiency. Petitioners filed petitions with the Tax Court on February 11, 1985. After the IRS conceded all issues on February 17, 1986, petitioners moved for litigation costs. The Tax Court considered whether petitioners met the requirements to be awarded litigation costs under section 7430.

### **Issue(s)**

1. Whether petitioners are entitled to an award of litigation costs under section 7430.
2. Whether petitioners have exhausted the administrative remedies available within the Internal Revenue Service.

### **Holding**

1. Yes, because petitioners substantially prevailed in the litigation and the IRS's position was unreasonable.
2. Yes, because petitioners exhausted the administrative remedies available to them within the IRS, and the regulations requiring an extension of the statute of limitations to qualify for litigation costs are invalid.

### **Court's Reasoning**

The Tax Court found that petitioners substantially prevailed in the litigation, as the IRS conceded all issues, and the IRS's position was unreasonable because it contradicted established case law regarding stock valuation without aggregation or family attribution. The court also invalidated sections of the IRS's regulations that required taxpayers to extend the statute of limitations to qualify for litigation costs, arguing that such a requirement was not supported by the statute or its legislative history. The court emphasized that the IRS did not make an Appeals Office conference available to petitioners, and thus, petitioners could not be faulted for not exhausting this remedy. The decision highlighted the importance of the statute of limitations as a taxpayer's right and criticized the IRS's regulations for attempting to coerce waivers without statutory authority.

### **Practical Implications**

This decision reinforces that taxpayers can recover litigation costs without extending the statute of limitations if they have exhausted available administrative remedies. It limits the IRS's ability to condition litigation cost recovery on such extensions, potentially affecting how the IRS conducts audits and negotiates with taxpayers. The ruling may encourage taxpayers to more aggressively assert their rights during audits, knowing that refusing to extend the statute of limitations will not automatically bar them from recovering costs if they prevail. Subsequent cases have applied this ruling to further clarify the exhaustion of administrative remedies and the conditions for litigation cost awards.