***Computer Programs Lambda, Ltd. v. Commissioner, 89 T. C. 198 (1987)***

Bankruptcy of a partner converts partnership items to nonpartnership items, severing the partner's interest in the partnership proceeding.

**Summary**

In this case, the U. S. Tax Court addressed the effect of a partner's bankruptcy on partnership proceedings. Pyke International, Inc. (PII), the tax matters partner of Computer Programs Lambda, Ltd. (CPL), filed for bankruptcy, which triggered the automatic stay under the Bankruptcy Code. The court held that PII's bankruptcy converted its partnership items to nonpartnership items, thereby removing PII from the partnership proceeding. The court also dismissed petitions filed by PII and another partner, W. P. Builders, due to the bankruptcy stay, but allowed the case to proceed based on a valid notice partner petition filed by William C. Mitchell. The decision underscores the importance of the tax matters partner's role and the need for a substitute when the original partner enters bankruptcy.

**Facts**

Computer Programs Lambda, Ltd. (CPL) was a Texas limited partnership with Pyke International, Inc. (PII) as the tax matters partner. On March 11, 1986, the IRS issued a notice of final partnership administrative adjustment to PII for CPL's 1982 taxable year. William A. Pyke, president of PII but not a CPL partner, filed a petition on June 13, 1986, claiming to be the tax matters partner. On June 17, 1986, PII filed for Chapter 11 bankruptcy, listing W. P. Builders as a division and co-debtor. Pyke attempted to amend the petition on August 7, 1986, to substitute PII as petitioner. Notice partners W. P. Builders and William C. Mitchell filed a joint petition on August 11, 1986, and James C. Bearden filed a separate petition on August 12, 1986.

**Procedural History**

The Commissioner moved to dismiss the petitions filed by Pyke, PII, W. P. Builders, and Bearden. The Tax Court considered the impact of the automatic stay under the Bankruptcy Code and the conversion of partnership items to nonpartnership items due to PII's bankruptcy filing. The court granted the motions to dismiss the petitions filed by Pyke, PII, and W. P. Builders, but allowed the case to proceed based on Mitchell's valid notice partner petition.

**Issue(s)**

1. Whether Pyke's petition as an individual tax matters partner commenced a valid partnership action.
2. Whether PII's amended petition to substitute itself as petitioner was valid given its bankruptcy filing.
3. Whether W. P. Builders' petition as a notice partner was valid given its status as a debtor in PII's bankruptcy proceeding.

 

4. Whether the automatic stay under the Bankruptcy Code prevented the partnership proceeding from going forward.
5. Whether Bearden’s petition should be dismissed as duplicative of Mitchell’s petition.

## Holding

1. No, because Pyke was not a partner of CPL and thus could not commence a partnership action.
2. No, because the automatic stay provision of the Bankruptcy Code barred PII from commencing an action after filing for bankruptcy.
3. No, because W. P. Builders, as a named debtor in PII’s bankruptcy, could not commence an action in the Tax Court.
4. No, because PII’s and W. P. Builders’ partnership items became nonpartnership items upon bankruptcy, severing their interest in the proceeding and allowing it to go forward.
5. Yes, because Mitchell’s petition was filed first, but Bearden was allowed to file an election to participate in the action that went forward.

## Court’s Reasoning

The court applied the automatic stay provision of the Bankruptcy Code (11 U. S. C. § 362(a)(8)) and IRS regulations under 26 U. S. C. § 6231(c) that convert partnership items to nonpartnership items upon a partner’s bankruptcy filing. The court reasoned that Pyke’s petition was invalid because he was not a partner, and PII’s amended petition was ineffective due to the automatic stay. W. P. Builders’ petition was also invalid due to its status as a debtor in PII’s bankruptcy. The court emphasized that the conversion of partnership items to nonpartnership items severed PII’s and W. P. Builders’ interest in the proceeding, allowing it to go forward. The court also highlighted the crucial role of the tax matters partner and the need for a substitute when the original partner enters bankruptcy. The court dismissed Bearden’s petition but allowed him to participate in the proceeding based on Mitchell’s valid petition.

## Practical Implications

This decision clarifies that a partner’s bankruptcy filing converts partnership items to nonpartnership items, severing the partner’s interest in the partnership proceeding and allowing it to continue. Practitioners must be aware of the automatic stay’s impact on partnership proceedings and the need to appoint a new tax matters partner when the original partner files for bankruptcy. The case also underscores the importance of filing timely notice partner petitions to preserve the partnership’s ability to challenge IRS adjustments. Subsequent cases have followed this precedent in handling partnership proceedings involving bankrupt partners.