Peoples Loan & Trust Co. v. Commissioner, 89 T. C. 896 (1987)

A valid jeopardy assessment under section 6867 requires that the possessor of cash does not claim ownership or acknowledge a readily identifiable owner.

Summary

Peoples Loan & Trust Co. and Leon E. Hendrickson were assessed federal income tax deficiencies as possessors of cash under section 6867 of the Internal Revenue Code. The court held that section 6867 requires the possessor to not claim ownership of the cash or acknowledge a readily identifiable owner at the time of the jeopardy assessment. Since Peoples Loan and Hendrickson claimed the cash belonged to the estate of Larry Dale Martin, which was readily identifiable, the court dismissed the case for lack of jurisdiction, as the notices of deficiency were invalid.

Facts

Larry Dale Martin operated the National Commodities Exchange Association (NCEA), which accepted deposits from members and invested in precious metals. After Martin's death in 1983, Peoples Loan & Trust Co. and Leon E. Hendrickson were in possession of cash and precious metals held for Martin or his clients. Peoples Loan was appointed administrator of Martin's estate and claimed the assets belonged to the estate. The Commissioner made jeopardy assessments against Peoples Loan and Hendrickson under section 6867, asserting that they possessed substantial cash without claiming ownership.

Procedural History

The Commissioner issued notices of deficiency to Peoples Loan and Hendrickson as possessors of cash. The petitioners filed for redetermination with the Tax Court, which consolidated the cases. The Tax Court dismissed the cases for lack of jurisdiction, ruling that the notices of deficiency were invalid because the possessors claimed the cash belonged to the Martin estate, a readily identifiable entity.

Issue(s)

1. Whether the Commissioner can make a valid jeopardy assessment under section 6867 when the possessor of cash claims it belongs to a readily identifiable person who acknowledges ownership?

Holding

1. No, because section 6867 requires that the possessor does not claim ownership or acknowledge a readily identifiable owner at the time of the jeopardy assessment. Since Peoples Loan and Hendrickson claimed the cash belonged to the Martin estate, which was readily identifiable, the notices of deficiency were invalid.

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Court’s Reasoning

The court interpreted section 6867 to require that the possessor of cash does not claim ownership or acknowledge a readily identifiable owner at the time of the jeopardy assessment. The court found that Peoples Loan and Hendrickson claimed the cash belonged to the Martin estate, which was readily identifiable due to its public record status and assigned taxpayer identification number. The court rejected the Commissioner’s argument that the possessor must prove the true owner, stating that the statute only requires a claim of ownership. The court also noted that the Martin estate had been appointed in Indiana, and multiple claims against the estate were filed by former NCEA clients. The court concluded that the notices of deficiency were invalid, as the conditions for section 6867 were not met, and dismissed the case for lack of jurisdiction.

Practical Implications

This decision clarifies that for a jeopardy assessment under section 6867 to be valid, the possessor of cash must not claim ownership or acknowledge a readily identifiable owner at the time of assessment. Tax practitioners should advise clients to clearly document any claims of ownership over cash or assets held on behalf of others. The decision impacts how the IRS can proceed with jeopardy assessments in cases where ownership is disputed, potentially limiting its ability to collect taxes when ownership is claimed by a readily identifiable entity. The ruling may influence future cases involving similar disputes over cash possession and ownership claims, emphasizing the need for clear identification of ownership to avoid jeopardy assessments under section 6867.

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