Blanco Investments & Land, Ltd. v. Commissioner, 89 T. C. 1169 (1987)

An S corporation with a single shareholder is exempt from the S corporation audit and litigation procedures due to the statutory incorporation of the small partnership exception.

Summary

In Blanco Investments & Land, Ltd. v. Commissioner, the Tax Court addressed whether an S corporation with one shareholder was subject to the S corporation audit and litigation procedures under I. R. C. § 6241 et seq. The court held that the small partnership exception under § 6231(a)(1)(B), which exempts partnerships with 10 or fewer partners from similar procedures, applied to S corporations by virtue of § 6244. This ruling meant that Blanco, having only one shareholder in 1983, was exempt from these procedures. Consequently, the court found the Notice of Final S Corporation Administrative Adjustment (FSAA) issued by the Commissioner to be invalid, and dismissed the case for lack of jurisdiction. The decision highlighted the necessity of a small S corporation exception and the limits of administrative discretion in setting the number of shareholders for such an exception.

Facts

Blanco Investments & Land, Ltd. (Blanco) was an S corporation with one shareholder, William T. White III, during its 1983 taxable year. The Commissioner of Internal Revenue commenced an examination of Blanco's 1983 return under the S corporation audit procedures and issued a Notice of Final S Corporation Administrative Adjustment (FSAA). Blanco, represented by its tax matters person Jack M. Little, argued that it was exempt from these procedures due to its status as a small S corporation.

Procedural History

Blanco filed a timely petition with the U. S. Tax Court seeking readjustment of the Commissioner's determinations in the FSAA. Concurrently, Blanco moved to dismiss the case for lack of jurisdiction, asserting its exemption as a small S corporation. The Commissioner objected to the motion, arguing that no small S corporation exception existed for the year in question.

Issue(s)

1. Whether the small partnership exception under § 6231(a)(1)(B) applies to S corporations by virtue of § 6244, thereby exempting an S corporation with one shareholder from the S corporation audit and litigation procedures.
2. Whether the absence of regulations under the S corporation audit procedures eliminates the small S corporation exception.

Holding

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1. Yes, because the small partnership exception relates to partnership items and is incorporated into the S corporation procedures by § 6244, creating a statutory minimum exception for an S corporation with one shareholder.
2. No, because the statute mandates a small S corporation exception, which is not nullified by the Commissioner's failure to issue timely regulations.

Court's Reasoning

The court interpreted § 6244 to incorporate the small partnership exception into the S corporation audit procedures, as it directly relates to partnership items. The court emphasized that the statutory language intended to extend partnership provisions to S corporations unless modified by regulations. Since no regulations existed in 1983 to modify the small partnership exception, the court found that a statutory minimum exception for S corporations with one shareholder was necessary. The court reasoned that applying the audit procedures to a single-shareholder S corporation would lead to unnecessary litigation, contrary to the statute's purpose of conserving resources. The court declined to set a specific number of shareholders for the exception, leaving this to administrative discretion, but held that the exception must apply to a single-shareholder S corporation.

Practical Implications

This decision established that an S corporation with one shareholder is exempt from the S corporation audit and litigation procedures, impacting how such cases are handled. It highlights the importance of considering statutory intent and the limits of administrative discretion when applying tax procedures. Practitioners should be aware that the absence of regulations does not eliminate statutory exceptions. The ruling also suggests that future regulations setting the threshold for the small S corporation exception must balance statutory intent with practical administrative considerations. Subsequent cases and regulations may need to address the appropriate number of shareholders for the exception, ensuring alignment with the statute's purpose.

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