

***Lois W. Poinier, as Transferee of Helen Wodell Halbach, et al. , Petitioners v. Commissioner of Internal Revenue, Respondent, 90 T. C. 63 (1988)***

The amount of an appeal bond may not be reduced by pending refund claims, and stripped U. S. obligations cannot be used as collateral in lieu of a surety bond.

## **Summary**

In *Poinier v. Commissioner*, the U. S. Tax Court addressed the proper amount and form of an appeal bond under Section 7485 of the Internal Revenue Code. The court ruled that the bond amount could not be reduced by the taxpayers' pending refund claims due to uncertainties about the claims' validity. Additionally, the court rejected the use of 'stripped' U. S. Government bonds as collateral, citing a Treasury regulation requiring bonds to have all unmatured coupons attached. The decision emphasizes the need for certainty in securing government interests during tax appeals and the strict interpretation of statutes and regulations regarding bond collateral.

## **Facts**

After decisions were entered against the petitioners in a tax case, they sought to appeal and requested the court to fix the appeal bond amount at \$5,544,933. The petitioners argued for a reduction of this amount by \$2,950,502, representing their pending refund claims. Additionally, they proposed using 'stripped' U. S. Government bonds as collateral instead of a surety bond, suggesting a trust arrangement with bonds and Treasury bills as an alternative.

## **Procedural History**

The case originated from decisions entered by the U. S. Tax Court on August 24, 1987, following an opinion issued on March 27, 1986. The petitioners' subsequent motion to vacate these decisions was denied on November 3, 1987. They then moved for an order to fix the appeal bond amount under Rule 192 of the Tax Court Rules of Practice and Procedure and Section 7485 of the Internal Revenue Code.

## **Issue(s)**

1. Whether the amount of an appeal bond required under Section 7485 may be reduced by the amount of pending refund claims.
2. Whether 'stripped' U. S. Government bonds may be used as collateral in lieu of a surety bond under Section 7485 and 31 U. S. C. Section 9303.

## **Holding**

1. No, because the certainty required for the government's protection during an appeal cannot be assured with pending refund claims that may not result in actual refunds.

2. No, because the regulation at 31 C. F. R. Section 225. 3 requires that U. S. Government bonds used as collateral must have all unmatured coupons attached, and stripped bonds do not meet this requirement.

### **Court's Reasoning**

The court reasoned that the purpose of an appeal bond is to secure the government's interests during the appeal process. Reducing the bond amount by the value of refund claims would undermine this purpose, as the validity of those claims is uncertain and subject to further audit and potential offsets by the government. The court cited previous cases like *Estate of Kahn v. Commissioner*, which emphasized the need for certainty in securing deficiencies. Regarding the use of stripped bonds, the court upheld the Treasury regulation requiring bonds to have all unmatured coupons attached, finding it a reasonable interpretation of the statute. The court noted the complexities that would arise from accepting stripped bonds, including valuation issues and the potential for exceeding statutory bond limits. The court also rejected the proposed trust arrangement as unnecessary and potentially problematic.

### **Practical Implications**

This decision clarifies that pending refund claims cannot be used to reduce appeal bond amounts, requiring taxpayers to secure the full amount determined by the court. It also affirms the strict interpretation of regulations concerning the use of U. S. Government bonds as collateral, prohibiting the use of stripped bonds. Practitioners should ensure that any bonds used as collateral comply with the regulation's requirement for attached unmatured coupons. The decision may impact how taxpayers approach appeals, especially those with pending refund claims, and underscores the importance of providing clear, certain security for the government during appeals. Subsequent cases have followed this ruling, reinforcing the principles established in *Poinier* regarding appeal bond requirements and collateral limitations.