Computer Programs Lambda, Ltd. v. Commissioner, 92 T. C. 1135 (1989)

The Tax Court has the inherent authority to appoint a tax matters partner for a partnership during litigation when the partnership fails to appoint one.

Summary

In Computer Programs Lambda, Ltd. v. Commissioner, the Tax Court addressed the issue of appointing a tax matters partner for a partnership during litigation after the original tax matters partner filed for bankruptcy. The case involved adjustments to the partnership's 1982 return, and the court needed to ensure the litigation's orderly conduct. The court appointed a limited partner as the tax matters partner, asserting its inherent authority to do so when the partnership failed to appoint a replacement. This decision was crucial for maintaining the statutory procedures and protecting the rights of all partners involved in the litigation.

Facts

The Commissioner issued a notice of final partnership administrative adjustment for Computer Programs Lambda, Ltd. (CPL) in 1986. Pyke International, Inc. , the original tax matters partner, filed for bankruptcy, disqualifying it from continuing in that role. Other general partners were also ineligible due to their involvement in the same bankruptcy. The court had previously given the partnership 60 days to appoint a new tax matters partner, but the partnership failed to do so. A vote to elect Mr. Pat Reilly as the new tax matters partner was unsuccessful due to opposition from interests affiliated with the former tax matters partner. Consequently, the court appointed Mr. Reilly as the tax matters partner solely for the litigation.

Procedural History

The Tax Court initially held that Pyke International, Inc. ceased to be CPL's tax matters partner upon filing for bankruptcy. After the partnership failed to appoint a new tax matters partner within the court's specified timeframe, the court proceeded with a hearing and appointed Mr. Reilly as the tax matters partner for the litigation.

Issue(s)

1. Whether the Tax Court has the authority to appoint a tax matters partner for a partnership during litigation when the partnership fails to do so?

Holding

1. Yes, because the court has inherent powers to ensure the fair, efficient, and consistent disposition of partnership litigation, and the presence of a tax matters partner is essential for the statutory procedures to function properly.

Court's Reasoning

The court reasoned that the statutory procedures for partnership level audits and litigation require the continual presence of a tax matters partner. Without one, the court could not assure that all partners would receive necessary information to protect their interests, nor could it ensure the orderly resolution of the controversy. The court cited its inherent powers, drawing analogies to the appointment of lead counsel in class action suits, to justify its authority to appoint a tax matters partner. The court also noted that the respondent's selection of a limited partner, who subsequently resigned, further necessitated judicial intervention. The court emphasized that the appointed tax matters partner, Mr. Reilly, would act solely in an administrative capacity for the litigation, without affecting his status as a limited partner under Texas law.

Practical Implications

This decision clarifies that the Tax Court can step in to appoint a tax matters partner when a partnership fails to do so, ensuring the continuation of litigation. Practitioners should be aware that the court will use its inherent powers to maintain the integrity of partnership proceedings. This ruling may encourage partnerships to promptly appoint a new tax matters partner to avoid court intervention. It also highlights the importance of the tax matters partner's role in providing information to partners and facilitating the litigation process. Subsequent cases may reference this decision when addressing similar issues of court authority and the appointment of representatives in partnership litigation.

