Energy Resources, Ltd. v. Commissioner, 91 T. C. 913, 1988 U. S. Tax Ct. LEXIS 138, 91 T. C. No. 56 (1988)

A partner in a large partnership with a small ownership interest cannot file a petition for readjustment of partnership items unless they qualify as a notice partner.

Summary

Energy Resources, Ltd. v. Commissioner (1988) addressed whether John C. Coggin III, a partner holding a 0. 495% interest in a large partnership with 177 partners, could file a petition for readjustment of partnership items. The Internal Revenue Service (IRS) issued a notice of final partnership administrative adjustment (FPAA) to the tax matters partner, Richard W. McIntyre, who did not file a petition. Coggin received a similar notice and filed a petition. The Tax Court held that Coggin, not being a notice partner as defined by the Internal Revenue Code, lacked the statutory authority to file such a petition. The court dismissed the case for lack of jurisdiction, emphasizing the statutory limitations on who may file petitions in partnership tax disputes.

Facts

Energy Resources, Ltd. , a limited partnership, had 177 partners in 1983. The IRS issued a notice of FPAA to Richard W. McIntyre, the tax matters partner, on March 26, 1987, disallowing a loss claimed by the partnership exceeding $10 million. McIntyre did not file a petition for readjustment. John C. Coggin III, who held a 0. 495% interest in the partnership, received a notice of FPAA on March 2, 1987, and subsequently filed a petition on August 3, 1987.

Procedural History

The IRS moved to dismiss Coggin’s petition for lack of jurisdiction. The case was heard by Special Trial Judge Peter J. Panuthos and was subsequently reviewed and adopted by Judge Nims of the United States Tax Court. The court considered whether Coggin qualified as a notice partner under section 6231(a)(8) of the Internal Revenue Code, which would allow him to file a petition for readjustment of partnership items.

Issue(s)

1. Whether John C. Coggin III, holding a 0. 495% interest in a partnership with over 100 partners, is entitled to the notice specified in section 6223(a) of the Internal Revenue Code and thus qualifies as a notice partner under section 6231(a)(8).
2. Whether Coggin is entitled to file a petition on behalf of Energy Resources, Ltd. for readjustment of partnership items.

Holding

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1. No, because Coggin does not meet the statutory criteria for a notice partner as defined by section 6231(a)(8) and section 6223(b)(1), which exclude partners with less than 1% interest in partnerships with over 100 partners from receiving notice.
2. No, because Coggin lacks the statutory authority to file a petition under section 6226(b) due to his status as a non-notice partner.

Court's Reasoning

The court applied the statutory rules under sections 6223 and 6231 of the Internal Revenue Code. Section 6223(b)(1) specifically excludes partners with less than a 1% interest in a partnership with over 100 partners from receiving the notice specified in section 6223(a). Consequently, such partners are not considered notice partners under section 6231(a)(8). The court found that Coggin, with a 0. 495% interest in a partnership with 177 partners, did not qualify as a notice partner. The court also rejected Coggin's argument based on legislative history, clarifying that the referenced legislative text related to different provisions concerning notice requirements. The court emphasized that the statutory scheme clearly delineates who may file petitions in partnership tax disputes, and Coggin's receipt of a notice from the IRS did not confer notice partner status upon him. Furthermore, the court dismissed Coggin's estoppel argument, stating that estoppel cannot create jurisdiction where none exists.

Practical Implications

This decision clarifies the jurisdictional limits of the Tax Court in partnership tax disputes, specifically defining who may file a petition for readjustment of partnership items. For legal practitioners, it underscores the importance of understanding the statutory definitions and requirements for notice partners in large partnerships. The ruling affects how attorneys should advise clients in similar situations, particularly those with minor interests in large partnerships, about their rights and limitations in challenging IRS adjustments. It also highlights the need for partnerships to ensure that appropriate partners are designated as tax matters partners or members of notice groups to effectively challenge IRS determinations. Subsequent cases have followed this precedent, reinforcing the statutory framework governing partnership tax proceedings.

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