Barbados # 7 Ltd. v. Commissioner, 92 T. C. 804 (1989)

A bankrupt partner lacks authority to extend the statute of limitations on behalf of a partnership.

Summary

Bajan Services, Inc. , the sole general partner and tax matters partner (TMP) of three limited partnerships, filed for bankruptcy, triggering the termination of its TMP designation. Despite this, Bajan executed extensions of the statute of limitations for the partnerships, which the court found invalid due to Bajan's lack of authority post-bankruptcy. The court upheld the validity of notices of final partnership administrative adjustment (FPAA) sent to the TMP at the partnership address, but granted summary judgment to the petitioner on the grounds that the statute of limitations had expired before the FPAAs were issued, as Bajan could not legally extend it while in bankruptcy.

Facts

Bajan Services, Inc. was designated the TMP for three limited partnerships, Barbados #7, #8, and #9, on their 1983 tax returns. Bajan filed for Chapter 11 bankruptcy on August 1, 1985, which terminated its TMP designation. On January 5, 1987, while still in bankruptcy, Bajan executed extensions of the statute of limitations for the partnerships. Notices of FPAA were issued to the partnerships in June and July 1987. Bajan was discharged from bankruptcy on August 7, 1987, and subsequently filed petitions challenging the FPAAs.

Procedural History

The petitioner moved to dismiss for lack of jurisdiction, arguing that the notices of FPAA were not properly mailed to the TMP. The court denied these motions, finding the notices valid. The petitioner also moved for summary judgment, asserting that the statute of limitations had expired before the notices were issued. The court granted these motions, ruling that Bajan lacked authority to extend the statute of limitations while in bankruptcy.

Issue(s)

1. Whether the court lacked jurisdiction because the notices of FPAA were not mailed to the TMP as required by sections 6223(a)(2) and 6226.
2. Whether the statute of limitations expired before the issuance of the notices of FPAA, given Bajan's execution of extensions while in bankruptcy.

Holding

1. No, because the notices were validly mailed to the TMP at the partnership address, as provided by section 301. 6223(a)-1T(a) of the Temporary Procedural and

Administrative Regulations.
2. Yes, because Bajan, having filed for bankruptcy, lacked authority to extend the statute of limitations on behalf of the partnerships, causing the statute to expire before the notices were issued.

Court's Reasoning

The court found that the notices of FPAA were validly mailed to the TMP at the partnership address, consistent with the regulations and congressional intent, thus rejecting the petitioner's jurisdictional challenge. On the statute of limitations issue, the court reasoned that Bajan's bankruptcy terminated its designation as TMP and its authority to act for the partnerships, including extending the statute of limitations. Under Utah law, a partner's bankruptcy dissolves the partnership, terminating the partner's authority to act except for winding up affairs. The court rejected the respondent's argument that Bajan could be "redesignated" as TMP under the regulations, finding such an interpretation contrary to congressional intent and the purpose of the unified partnership audit and litigation procedures. The court also dismissed potential estoppel claims, noting that the respondent was aware of Bajan's bankruptcy and thus could not reasonably rely on the extensions.

Practical Implications

This decision clarifies that a partner's bankruptcy terminates their authority to act on behalf of a partnership, including executing extensions of the statute of limitations. Practitioners should ensure that partnerships designate a new TMP upon a partner's bankruptcy to avoid jurisdictional issues and expired statutes of limitations. The ruling emphasizes the importance of timely addressing changes in TMP status and underscores the necessity of understanding state partnership laws, which may affect a partner's authority post-bankruptcy. This case has been cited in subsequent decisions to support the principle that a bankrupt partner cannot extend the statute of limitations for a partnership, influencing how similar cases are analyzed and reinforcing the need for partnerships to monitor and manage their TMP designations carefully.

