Williams v. Commissioner, 92 T. C. 920 (1989)

The Tax Court has jurisdiction to review and temporarily stay the sale of seized property under a jeopardy or termination assessment, with the burden on the Commissioner to justify the sale.

Summary

In Williams v. Commissioner, the Tax Court addressed its jurisdiction to review the IRS's determination to sell seized property under a jeopardy assessment. Melvin and Mary Williams sought a stay of the sale of their jewelry and furs, arguing the assets were not perishable or diminishing in value. The court ruled it had authority to review such determinations and issue temporary stays, with the burden on the Commissioner to prove the sale was justified. The court stayed the jewelry sale for six months but allowed the fur sale to proceed, as the Williamses provided no evidence on the furs' value.

Facts

In 1984, the Drug Enforcement Administration (DEA) seized jewelry and furs from Melvin and Mary Williams. In 1987, the IRS made a jeopardy assessment against the Williamses and seized the property from DEA. In early 1989, the IRS scheduled an auction of the items for March 1, 1989. On February 28, 1989, the Williamses filed a motion with the Tax Court to stay the sale, arguing the property was not perishable or diminishing in value. The IRS justified the sale based on appraisals showing a decline in value.

Procedural History

The IRS made a jeopardy assessment against the Williamses in 1987 and seized their jewelry and furs. The Williamses timely filed petitions with the Tax Court contesting the deficiency. On February 28, 1989, the day before the scheduled auction, the Williamses filed a motion to stay the sale under newly enacted IRC § 6863(b)(3)(C). The Tax Court issued a temporary stay and allowed the parties to submit briefs and appraisals. The court then ruled on the motion on May 9, 1989.

Issue(s)

1. Whether the Tax Court has jurisdiction to review the IRS's determination to sell seized property under a jeopardy assessment?
2. Whether the Tax Court can issue a temporary stay of the sale of seized property pending review?
3. Whether the burden of proof in such a review should be on the taxpayer or the Commissioner?
4. Whether the IRS's determination to sell the Williamses' jewelry and furs was justified?

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Holding

1. Yes, because the Tax Court's jurisdiction to review sales of seized property under jeopardy assessments is expressly granted by IRC § 6863(b)(3)(C).
2. Yes, because the authority to review necessarily includes the power to issue a temporary stay to preserve the rights of the parties.
3. The burden is on the Commissioner, because the unique circumstances of these proceedings warrant departure from the usual rule.
4. Yes for the furs, because the Williamses provided no evidence on their value; No for the jewelry, because the Williamses' appraisal showed no likely decline in value for six months.

Court's Reasoning

The Tax Court reasoned that its jurisdiction to review sales of seized property under jeopardy assessments was clearly established by the recently enacted IRC § 6863(b)(3)(C). The court further held that this jurisdiction necessarily included the power to issue temporary stays to preserve the rights of the parties. The court placed the burden of proof on the Commissioner due to the unique circumstances of these proceedings, where the IRS controls the property and initiates the sale. For the jewelry, the court found the Williamses' appraisal showing no likely decline in value for six months more persuasive than the IRS's appraisals. However, the court allowed the fur sale to proceed, as the Williamses provided no evidence on the furs' value.

Practical Implications

This decision establishes the Tax Court's authority to review and temporarily stay sales of seized property under jeopardy assessments. Taxpayers now have a forum to contest such sales, and the IRS bears the burden of justifying them. Practitioners should be aware of this remedy when representing clients facing jeopardy assessments and property seizures. The decision also highlights the importance of providing current appraisals to support arguments about a seized asset's value. Subsequent cases have applied this ruling, affirming the Tax Court's jurisdiction and the Commissioner's burden in these matters.

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