McManus v. Commissioner, 93 T. C. 79 (1989)

The Tax Court will not have jurisdiction over a declaratory judgment action for retirement plan qualification unless the petitioner has exhausted all available administrative remedies within the IRS.

Summary

Charles E. McManus, III sought a declaratory judgment from the U. S. Tax Court regarding the qualification of three retirement plans under Section 401(a) of the Internal Revenue Code. The IRS moved to dismiss for lack of jurisdiction, arguing that McManus failed to exhaust administrative remedies. The court agreed, holding that McManus did not appeal the proposed adverse determination letters or amend the plans as requested, thus not exhausting his remedies. Additionally, the court found that some plan provisions were not in effect at the time of filing, further precluding jurisdiction. The court dismissed the action, emphasizing the necessity of exhausting all administrative steps before seeking judicial review.

Facts

Charles E. McManus, III applied for initial qualification of three retirement plans on March 5, 1982. The IRS identified issues with the plans and requested amendments and additional information by October 13, 1982. McManus did not respond to these requests. The IRS sent proposed adverse determination letters on September 23, 1983, which were returned undeliverable. Final adverse determination letters were sent on June 7, 1984. McManus filed a petition for declaratory judgment on September 7, 1984, but did not provide the requested amendments or appeal the adverse determinations.

Procedural History

McManus filed his application for determination on March 5, 1982. After failing to respond to the IRS’s requests for amendments, the IRS issued proposed adverse determination letters on September 23, 1983, which were returned undeliverable. Final adverse determination letters were sent on June 7, 1984. McManus then filed a petition for declaratory judgment on September 7, 1984. The IRS moved to dismiss for lack of jurisdiction, and the Tax Court granted the motion on July 24, 1989.

Issue(s)

1. Whether the Tax Court has jurisdiction over this declaratory judgment action under Section 7476 of the Internal Revenue Code when the petitioner has not exhausted all available administrative remedies within the IRS.
2. Whether the Tax Court has jurisdiction over this action when some of the plan provisions sought to be declared qualified were not in effect at the time of filing the petition.

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Holding

1. No, because McManus did not exhaust administrative remedies as required by Section 7476(b)(3). He failed to appeal the proposed adverse determination letters or submit the requested amendments.
2. No, because some provisions of the plans were not in effect prior to the filing of the petition, as required by Section 7476(b)(4).

Court's Reasoning

The court applied Section 7476(b)(3) and (b)(4) of the Internal Revenue Code, which require exhaustion of administrative remedies and that the plan be in effect before filing for declaratory judgment. The court emphasized that McManus did not respond to the IRS's requests for amendments or appeal the proposed adverse determinations. The court cited Section 601. 201(o) of the IRS's Procedural Rules, which outlines the steps necessary to exhaust administrative remedies. The court also noted that the IRS had acted properly by mailing all correspondence to the address on file. The court's decision was influenced by the policy of ensuring the IRS has sufficient information to make a determination and preventing premature judicial interruption of the administrative process. The court followed precedent from *Arthur Sack, Pension Paperwork, Inc. v. Commissioner*, dismissing the case for lack of jurisdiction due to unexhausted remedies and unimplemented plan provisions.

Practical Implications

This decision underscores the importance of fully engaging with the IRS's administrative process when seeking qualification of retirement plans. Practitioners must ensure that all procedural steps are followed, including responding to IRS requests for amendments and appealing adverse determinations. Failure to exhaust administrative remedies will result in dismissal of declaratory judgment actions, emphasizing the need for diligent communication with the IRS. The ruling also clarifies that only plans currently in effect can be the subject of declaratory judgment, impacting how attorneys draft and submit plans for IRS review. This case has been cited in subsequent cases to reinforce the exhaustion requirement, affecting how similar cases are analyzed and how legal practice in this area is conducted.

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