Thoburn v. Commissioner, 95 T. C. 132 (1990)

The IRS may extend the statute of limitations to six years for excise tax assessments when a plan return fails to disclose prohibited transactions, even if the return does not provide for calculating the tax.

Summary

Thoburn v. Commissioner involved participants in a profit-sharing plan who borrowed money from it, triggering excise taxes under IRC section 4975 for prohibited transactions. The IRS assessed these taxes beyond the standard three-year statute of limitations, which the taxpayers contested. The Tax Court held that the six-year statute of limitations applied because the plan's information returns omitted these transactions, providing no clue to the IRS of their existence. The court also clarified that a Department of Labor (DOL) settlement did not preclude IRS assessments and that the IRS complied with notice requirements to the DOL before assessing the taxes. This case underscores the importance of full disclosure on plan returns to avoid extended limitation periods.

Facts

From 1980 to 1985, the petitioners, employees of Gainesville Medical Group, borrowed money from their employer's qualified profit-sharing plan at interest rates of 10% for 1980-1981 loans and 8% for 1982-1985 loans. In 1986, the plan's trustees settled with the DOL, agreeing to adjust the interest rates to 10% retroactively for the 1982-1985 loans. The IRS, after notifying the DOL, assessed excise taxes against the petitioners for the prohibited transactions under IRC section 4975. The plan's returns for 1980-1985 did not disclose these loans, and the IRS issued deficiency notices in 1987.

Procedural History

The petitioners filed motions to dismiss for lack of jurisdiction or to limit the IRS's determinations based on inadequate notice to the DOL and the effect of the DOL settlement. They also argued that the statute of limitations barred assessments for certain years. The Tax Court denied these motions, holding that the IRS complied with notice requirements to the DOL and that the DOL settlement did not preclude IRS assessments. The court also applied the six-year statute of limitations due to the undisclosed nature of the prohibited transactions on the plan's returns.

Issue(s)

1. Whether the IRS complied with the notification requirement to the DOL under IRC section 4975(h) before assessing the excise taxes.
2. Whether the DOL settlement precluded the IRS from assessing excise taxes under IRC section 4975.
3. Whether the six-year statute of limitations under IRC section 6501(e)(3) applied

due to the omission of prohibited transactions from the plan's returns.

Holding

1. Yes, because the IRS sent a letter to the DOL that conformed to the requirements of the IRS-DOL agreement, providing sufficient notice under IRC section 4975(h).
2. No, because the DOL settlement explicitly stated it did not bind the IRS or preclude further action by other agencies.
3. Yes, because the failure to disclose the prohibited transactions on the plan's returns constituted an omission under IRC section 6501(e)(3), triggering the six-year statute of limitations.

Court's Reasoning

The Tax Court reasoned that the IRS letter to the DOL satisfied the notification requirement under IRC section 4975(h), as it followed the IRS-DOL agreement's procedures. The court rejected the argument that the DOL settlement precluded IRS assessments, citing the settlement's explicit disclaimer that it did not bind the IRS. On the statute of limitations issue, the court interpreted IRC section 6501(e)(3) to extend the assessment period to six years when prohibited transactions are not disclosed on plan returns, even if the returns do not provide for calculating the excise tax. The court emphasized the policy behind the extended limitation period, which is to give the IRS additional time to investigate when returns fail to provide clues about omitted transactions.

Practical Implications

This decision affects how similar cases involving undisclosed prohibited transactions in employee benefit plans should be analyzed. Plan administrators must ensure full disclosure of all transactions on plan returns to avoid triggering the six-year statute of limitations. The ruling also clarifies that settlements with the DOL do not preclude IRS assessments unless explicitly stated otherwise. This case may influence legal practice by emphasizing the importance of clear communication between the IRS and DOL and the need for plan administrators to be diligent in reporting. Subsequent cases, such as Rutland v. Commissioner, have applied this ruling, reinforcing its impact on the interpretation of the statute of limitations for excise tax assessments.

