Wallace J. White and Sandra J. White v. Commissioner of Internal Revenue, 95 T. C. 209 (1990)

The U. S. Tax Court lacks jurisdiction to redetermine additional interest under IRC section 6621(c) in partnership tax cases because such interest is not considered a "deficiency" and is not related to a substantial underpayment attributable to tax-motivated transactions.

Summary

In White v. Commissioner, the U. S. Tax Court addressed its jurisdiction over additional interest assessed under IRC section 6621(c) in a partnership tax case. After the partnership-level proceedings concluded, the Commissioner issued a deficiency notice to the Whites, assessing additional interest and various tax additions. The court held that it lacked jurisdiction to redetermine the additional interest because it was not a "deficiency" under the statute and was not related to a substantial underpayment attributable to tax-motivated transactions. This ruling clarified the jurisdictional limits of the Tax Court in handling additional interest in partnership cases, emphasizing that such interest is not subject to deficiency procedures.

Facts

Wallace and Sandra White were partners in the Accounting Associates partnership. In 1988, the Commissioner issued a Final Partnership Administrative Adjustment (FPAA) to the partnership's tax matters partner, which resulted in adjustments to the 1984 partnership return. The Whites received notice of these adjustments as notice partners. No petition was filed against the FPAA, leading to a computational adjustment assessed against the Whites. Subsequently, in 1989, the Commissioner issued a notice of deficiency to the Whites, determining their liability for additional interest under IRC section 6621(c) and various additions to tax for 1984. The Whites timely filed a petition to redetermine these assessments.

Procedural History

The Commissioner issued an FPAA to the Accounting Associates partnership in 1988, which resulted in computational adjustments assessed against the Whites. In 1989, the Commissioner issued a notice of deficiency to the Whites, assessing additional interest and additions to tax. The Whites filed a timely petition in the U. S. Tax Court to redetermine these assessments. The Commissioner then filed a motion to dismiss for lack of jurisdiction over the additional interest under IRC section 6621(c).

Issue(s)

1. Whether the U. S. Tax Court has jurisdiction under IRC section 6230(a)(2)(A)(i) to redetermine additional interest under IRC section 6621(c) as a "deficiency"

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attributable to an affected item requiring partner level determinations.
2. Whether the U. S. Tax Court has jurisdiction under IRC section 6621(c)(4) to determine whether additional interest under IRC section 6621(c) applies in the present case.

Holding

1. No, because additional interest under IRC section 6621(c) is not a "deficiency" attributable to an affected item requiring partner level determinations, as it is not considered a "tax" under the deficiency procedures.
2. No, because the deficiency before the court is not a substantial underpayment attributable to tax-motivated transactions, as required by IRC section 6621(c)(4).

Court's Reasoning

The court reasoned that additional interest under IRC section 6621(c) is not a "deficiency" because it is excluded from the definition of "tax" for deficiency procedures under IRC section 6601(e)(1). The court also clarified that IRC section 6621(c)(4) only grants jurisdiction to determine additional interest in cases involving a substantial underpayment attributable to tax-motivated transactions, which was not applicable in this case. The court rejected the argument that its prior dicta in Saso v. Commissioner suggested jurisdiction over additional interest, emphasizing that Saso did not directly address the issue. The court also considered the dissent's argument that the statute should be broadly interpreted to avoid piecemeal litigation and potential due process concerns, but ultimately held that the statutory language and context did not support such an interpretation.

Practical Implications

This decision limits the U. S. Tax Court's jurisdiction in partnership tax cases involving additional interest under IRC section 6621(c), requiring taxpayers to seek other forums to contest such interest assessments. Practitioners must carefully consider the jurisdictional limits when advising clients on partnership tax disputes, ensuring that all relevant issues are addressed in the appropriate venue. The ruling also highlights the importance of understanding the distinction between "deficiencies" and "affected items" in partnership tax law, as well as the specific requirements for invoking IRC section 6621(c)(4) jurisdiction. The decision may prompt legislative action to clarify the Tax Court's jurisdiction over additional interest in partnership cases, especially given the repeal of IRC section 6621(c) in 1989.

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