Montana Sapphire Assoc. , Ltd. v. Commissioner, 95 T. C. 477 (1990)

Only a duly designated tax matters partner can file a valid petition for readjustment of partnership items within the first 90 days after the issuance of a Final Partnership Administrative Adjustment (FPAA).

Summary

In Montana Sapphire Assoc. , Ltd. v. Commissioner, the U. S. Tax Court addressed whether a petition filed by an accountant, who was not a partner, could be valid under IRC section 6226(a). The court held that only a tax matters partner, defined as a partner with a capital or profits interest, can file such a petition. Despite the accountant's election as the "managing general partner," he was not qualified to file the petition because he lacked a partnership interest. The court allowed 60 days for the partnership to appoint a qualified tax matters partner to ratify the petition, highlighting the necessity of strict adherence to statutory requirements in partnership tax disputes.

Facts

Montana Sapphire Associates, Ltd. , a limited partnership, received a Final Partnership Administrative Adjustment (FPAA) from the IRS for its 1983 taxable year. James F. McAuliffe, the partnership's accountant, was elected as the "managing general partner" in 1985 but did not hold a capital or profits interest in the partnership. McAuliffe authorized the filing of a petition for readjustment of partnership items within the statutory 90-day period. The IRS moved to dismiss the petition, arguing that it was not filed by a qualified tax matters partner.

Procedural History

The IRS issued the FPAA on April 6, 1987. A petition for readjustment was filed on July 6, 1987, within the 90-day period prescribed by IRC section 6226(a). The IRS subsequently moved to dismiss the petition for lack of jurisdiction, claiming it was not filed by the tax matters partner. The case was heard by a Special Trial Judge and then reviewed by the full Tax Court.

Issue(s)

1. Whether James F. McAuliffe, who was not a partner but elected as the "managing general partner," was qualified to file a petition for readjustment of partnership items under IRC section 6226(a).
2. Whether the Tax Court should dismiss the petition due to its defective filing or allow an amendment.

Holding

1. No, because McAuliffe was not a partner in the partnership and thus could not

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qualify as the tax matters partner under IRC section 6231(a)(7).
2. No, because the court decided to hold the motion to dismiss in abeyance and allow the partnership 60 days to appoint a qualified tax matters partner who could ratify the original petition.

Court's Reasoning

The court applied IRC sections 6226(a) and 6231(a)(7), which specify that only a tax matters partner can file a petition for readjustment within the first 90 days after an FPAA is issued. The court emphasized that a tax matters partner must be a partner with a capital or profits interest in the partnership. McAuliffe, lacking such an interest, could not file the petition. The court cited *Western Reserve Oil & Gas Co. v. Commissioner* to support this interpretation. Despite the defective petition, the court chose not to dismiss the case outright, recognizing the partnership's intent to contest the FPAA and the potential injustice of denying them a judicial remedy. Instead, the court allowed time for the partnership to appoint a qualified tax matters partner to ratify the petition, citing precedents like *Carstenson v. Commissioner* where similar allowances were made.

Practical Implications

This decision underscores the importance of strict adherence to statutory requirements in filing petitions in partnership tax cases. Practitioners must ensure that only a duly designated tax matters partner files such petitions within the initial 90-day period. The ruling also highlights the Tax Court's discretion to allow amendments to defective petitions, which can be crucial for partnerships seeking to challenge IRS adjustments. This case has influenced subsequent cases involving similar issues, reinforcing the need for clear designation of tax matters partners and proper authorization for filing petitions. For partnerships, it serves as a reminder to review and update their agreements to ensure compliance with tax procedures, and for tax professionals, it emphasizes the need for careful planning and documentation in partnership tax disputes.

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