Odend'hal v. Commissioner, 97 T. C. 226 (1991)

The Tax Court lacks jurisdiction to determine increased interest under section 6621(c) when the underlying deficiency does not involve a substantial underpayment attributable to tax-motivated transactions.

Summary

In Odend'hal v. Commissioner, the Tax Court addressed its jurisdiction over increased interest under section 6621(c) when the underlying deficiency was not related to tax-motivated transactions. The case involved Fortune Odend'hal, who challenged the IRS's determination of increased interest for tax years 1977-1982. The court held that it lacked jurisdiction under section 6621(c)(4) because the deficiencies in question were not substantial underpayments attributable to tax-motivated transactions, thus affirming the IRS's motion to dismiss for lack of jurisdiction over the increased interest issue.

Facts

Fortune Odend'hal, Jr. IV invested in the Kroger-Cincinnati Joint Venture from 1973-1982. The tax treatment of losses from this investment for 1973-1976 was previously resolved. The current case involved tax years 1977 through 1982. The IRS determined deficiencies and assessed additions to tax for late filing under section 6651(a)(1) for 1977-1979, and increased interest under section 6621(c) for 1977-1982. Odend'hal paid the underlying deficiencies but contested the additions to tax and increased interest. The IRS issued statutory notices of deficiency, and Odend'hal filed petitions for redetermination.

Procedural History

Odend'hal timely filed petitions for redetermination of the IRS's determinations. The IRS moved to dismiss for lack of jurisdiction as to the years 1980, 1981, and 1982, and the section 6621(c) issue for 1978 and 1979 in one docket, and the section 6621(c) issue in another docket. The cases were consolidated for the purpose of considering these motions.

Issue(s)

1. Whether the Tax Court has jurisdiction under section 6621(c)(4) to determine whether petitioners are liable for increased interest in the setting presented in this case?

Holding

1. No, because the deficiencies before the court are not substantial underpayments attributable to tax-motivated transactions, as required by section 6621(c)(4).

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Court’s Reasoning

The Tax Court’s jurisdiction is limited to what is expressly permitted by statute. Section 6621(c)(4) grants jurisdiction to the Tax Court to determine the portion of a deficiency that is a substantial underpayment attributable to tax-motivated transactions in a proceeding for redetermination of a deficiency. The court clarified that increased interest under section 6621(c) is not considered a deficiency. The deficiencies in this case were additions to tax for late filing, which are imposed under subtitle F, not subtitle A (income taxes), and thus not related to tax-motivated transactions. The court rejected the petitioners’ arguments that the IRS’s actions or the payment of the underlying deficiency could confer jurisdiction, emphasizing that the court could not apply equitable principles to assume jurisdiction where none existed by statute.

Practical Implications

This decision limits the Tax Court’s jurisdiction over increased interest assessments under section 6621(c), requiring that the underlying deficiency involve a substantial underpayment attributable to tax-motivated transactions. Practitioners must be aware that if the deficiency does not meet these criteria, they cannot challenge increased interest in the Tax Court. This ruling may affect how taxpayers and their representatives approach disputes over increased interest, potentially requiring them to seek relief in other courts. The decision also underscores the importance of understanding the statutory basis for Tax Court jurisdiction, particularly when dealing with interest assessments.

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