Powell v. Commissioner, 96 T. C. 707 (1991)

The Tax Court lacks jurisdiction to redetermine tax liabilities resulting from settled partnership items or related increased interest.

Summary

In Powell v. Commissioner, the Tax Court addressed its jurisdiction over tax assessments following a settlement between the Powells and the Commissioner concerning partnership items. After settling partnership items for 1983 and 1984, the Powells received deficiency notices for additions to tax and increased interest. They sought to challenge these amounts in Tax Court and requested an injunction against their collection. The court held that it lacked jurisdiction over the tax liabilities from the settled partnership items and the increased interest, and thus could not enjoin their assessment or collection. This decision underscores the jurisdictional limits of the Tax Court in cases involving settled partnership items.

Facts

Thomas and Joyce Powell invested in Assets Trading Ltd. , a partnership subject to audit and litigation procedures. After the IRS issued notices of final partnership administrative adjustment for 1983 and 1984, the Powells settled with the Commissioner, agreeing to adjust their claimed losses but not settling related additions to tax and increased interest. Subsequently, the Commissioner issued notices of deficiency for additions to tax under I. R. C. sec. 6659 and increased interest under I. R. C. sec. 6621(c). The Powells filed petitions for redetermination and sought to restrain assessment and collection of these amounts.

Procedural History

The IRS issued notices of final partnership administrative adjustment for 1983 and 1984. The Powells settled with the Commissioner regarding their partnership items but not the related additions to tax and increased interest. Following the settlement, the Commissioner assessed the tax and interest from the settlement and issued deficiency notices for additional tax and interest. The Powells filed petitions with the Tax Court, challenging the deficiencies and seeking to enjoin their collection. The Tax Court dismissed the petitions related to the settled partnership items and increased interest for lack of jurisdiction.

Issue(s)

1. Whether the Tax Court has jurisdiction to redetermine the Powells' liability for tax attributable to a settlement of partnership items.
2. Whether the Tax Court has jurisdiction to redetermine the Powells' liability for increased interest under I. R. C. sec. 6621(c).
3. Whether the Tax Court has jurisdiction to enjoin the assessment and collection of tax and interest from settled partnership items.

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Holding

1. No, because the tax attributable to settled partnership items becomes a nonpartnership item, and the Tax Court lacks jurisdiction over such items as per I. R. C. sec. 6230(a).
2. No, because the Tax Court lacks jurisdiction over increased interest under I. R. C. sec. 6621(c) when only additions to tax are in dispute, following White v. Commissioner.
3. No, because the Tax Court lacks jurisdiction over the underlying tax and interest, it cannot enjoin their assessment and collection under I. R. C. sec. 6213(a).

Court's Reasoning

The Tax Court's decision was grounded in statutory interpretation and precedent. It emphasized that once partnership items are settled, they convert to nonpartnership items, removing them from the court's jurisdiction under I. R. C. sec. 6230(a). The court cited White v. Commissioner to support its lack of jurisdiction over increased interest under I. R. C. sec. 6621(c) when only additions to tax are contested. The court also interpreted I. R. C. sec. 6213(a) to limit its ability to enjoin assessment and collection to deficiencies that are the subject of a timely filed petition, which did not include the settled partnership items or increased interest. The decision reflects a policy of limiting the Tax Court's jurisdiction to ensure efficient tax administration and respect for settlements.

Practical Implications

This decision clarifies the jurisdictional boundaries of the Tax Court in cases involving settled partnership items. Practitioners must advise clients that once partnership items are settled, challenges to related tax liabilities must be pursued in other forums. The ruling may influence settlement negotiations, as taxpayers must weigh the finality of settling partnership items against the inability to challenge resulting tax assessments in Tax Court. The decision also impacts how the IRS approaches collection efforts post-settlement, knowing that Tax Court cannot intervene. Subsequent cases have followed this precedent, reinforcing the jurisdictional limits established in Powell.

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