Modern Computer Games, Inc. v. Commissioner, 96 T. C. 839, 1991 U. S. Tax Ct. LEXIS 54, 96 T. C. No. 40 (1991)

The consent to extend the statutory period of limitations for an S corporation is valid if signed by the shareholder with the largest profits interest, even if a different shareholder is later designated as the tax matters person.

Summary

In Modern Computer Games, Inc. v. Commissioner, the U. S. Tax Court ruled on the validity of a consent agreement to extend the statute of limitations for an S corporation's tax assessment. The court held that the consent was valid when signed by the shareholder with the largest profits interest, William Leister, despite a later designation of Carl Rader as the tax matters person (TMP) for filing the petition. This decision underscores that the designation of a TMP for the purpose of extending the limitations period does not need to align with the TMP designation for filing a petition, emphasizing the importance of the timing and purpose of TMP designations in tax proceedings.

Facts

Modern Computer Games, Inc. (Games), an S corporation, had not formally designated a tax matters person (TMP). In 1986, during an IRS examination, William Leister, holding the largest profits interest, signed a consent agreement to extend the period of limitations for tax assessment. Later, Carl Rader, authorized by the shareholders to file a petition, filed a petition with the Tax Court challenging the IRS's final S corporation administrative adjustment (FSAA) issued after the original limitations period had expired.

Procedural History

The IRS issued the FSAA on October 31, 1988, and Carl Rader filed a petition on January 27, 1989. The IRS initially moved to dismiss for lack of jurisdiction, arguing Rader was not the proper TMP. The Tax Court rejected this motion, ruling Rader was authorized to file the petition. Subsequently, Rader moved for summary judgment, asserting the FSAA was invalid because the limitations period had expired and the consent agreement was not validly executed by the proper TMP.

Issue(s)

1. Whether the consent agreement to extend the statutory period of limitations for tax assessment was validly executed by William Leister, despite Carl Rader's later designation as TMP for filing the petition.

Holding

1. Yes, because William Leister, as the shareholder with the largest profits interest,

© 2025 SCOTUSreports.com. All rights reserved.

was treated as the TMP for the purpose of extending the limitations period under section 6231(a)(7)(B) at the time the consent was signed.

Court's Reasoning

The Tax Court reasoned that the purpose of identifying a TMP under section 6231(a)(7) is primarily to ensure the IRS can properly issue the FSAA. Since Games had not designated a TMP before the FSAA was issued, Leister, as the shareholder with the largest profits interest, was correctly treated as the TMP for extending the limitations period. The court emphasized that the subsequent designation of Rader as TMP for filing the petition did not affect the validity of the earlier consent agreement. The court distinguished between the timing and purpose of TMP designations, noting that the IRS's interest in having a designated TMP is primarily before the issuance of the FSAA. The court cited *Chomp Associates v. Commissioner* and *Gold-N-Travel, Inc. v. Commissioner* to support its interpretation of the relevant tax provisions.

Practical Implications

This decision clarifies that the validity of a consent to extend the statute of limitations for an S corporation does not depend on the TMP designated for filing a petition. Practitioners should ensure that the shareholder with the largest profits interest signs the consent if no formal TMP designation has been made. This ruling also underscores the importance of timely and clear communication with the IRS regarding TMP designations. For S corporations and their shareholders, this case highlights the need to understand the different roles and timing of TMP designations in tax proceedings. Subsequent cases like *Gold-N-Travel, Inc. v. Commissioner* have further clarified these principles, affecting how similar cases are handled in practice.

© 2025 SCOTUSreports.com. All rights reserved.