Hefti v. Commissioner, 97 T. C. 180 (1991)

Compliance by a third party with an IRS summons does not terminate the suspension of the statute of limitations period during a proceeding to enforce the summons.

Summary

The IRS issued a summons to petitioners' bank, prompting petitioners to file a petition to quash the summons. The district court dismissed the petition, and although the bank complied with the summons before the appeal period ended, the Tax Court held that the statute of limitations was suspended until the appeal period expired. This ruling upheld the validity of the regulation stating that third-party compliance does not affect the suspension period, ensuring the IRS's deficiency notice was timely issued despite the extended period.

Facts

The IRS issued a third-party summons to the Landmark Bank of St. Louis for records related to petitioners' 1983 tax return. Petitioners filed a petition to quash the summons in district court. The court dismissed the petition, and the bank complied with the summons before the appeal period expired. Petitioners did not appeal the dismissal, and the IRS issued a deficiency notice over three years after the return was filed.

Procedural History

The IRS issued a summons to Landmark Bank. Petitioners filed a petition to quash in district court, which dismissed the petition. The bank complied with the summons before the appeal period expired. Petitioners did not appeal, and the IRS issued a deficiency notice. The Tax Court initially denied petitioners' motion for summary judgment. The case was appealed and remanded for consideration of the regulation's validity.

Issue(s)

1. Whether the regulation stating that third-party compliance with a summons does not affect the suspension of the statute of limitations period is valid.

Holding

1. Yes, because the regulation harmonizes with the plain language, origin, and purpose of the statute and is a reasonable interpretation thereof.

Court's Reasoning

The court analyzed the validity of the regulation under Section 301. 7609-5(b),

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which states that compliance with a summons does not affect the suspension period. The court found the regulation to be a reasonable interpretation of the ambiguous statute, Section 7609(e), which suspends the statute of limitations during a proceeding to enforce a summons. The regulation was deemed valid because it was consistent with the legislative history, had been in effect without relevant change since 1980, and had been consistently applied by the IRS. The court rejected petitioners' argument based on the Eighth Circuit's dictum in Orlowski, finding it inapplicable to the facts of this case.

Practical Implications

This decision clarifies that the statute of limitations for tax assessments remains suspended during the entire period a proceeding to enforce a third-party summons is pending, including the appeal period, regardless of when the third party complies with the summons. This ruling benefits the IRS by preventing taxpayers from abusing the system to delay investigations while the statute of limitations runs. It also provides a clear rule for both taxpayers and the IRS in calculating the suspension period, avoiding the need for factual determinations about compliance. Subsequent cases have followed this precedent, reinforcing the IRS's ability to effectively use summonses in tax investigations.

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