University Heights at Hamilton Corp. v. Commissioner, 97 T. C. 278; 1991 U. S. Tax Ct. LEXIS 76; 97 T. C. No. 17 (1991)

The U. S. Tax Court has jurisdiction over subchapter S items even if those items affect shareholder basis, but lacks jurisdiction over the determination of shareholder basis itself.

Summary

In University Heights at Hamilton Corp. v. Commissioner, the U. S. Tax Court clarified its jurisdiction in the context of subchapter S corporations. The case involved a motion to dismiss for lack of jurisdiction after the Commissioner issued Final S Corporation Administrative Adjustments (FSAAs) that adjusted items affecting shareholder basis without changing the corporation's income, losses, deductions, or credits. The Court held that while it did not have jurisdiction over the determination of shareholder basis, it did have jurisdiction over the subchapter S items listed in the FSAAs, as these items should be determined at the corporate level. The decision underscores the distinction between corporate-level items and shareholder-level items, impacting how future cases involving subchapter S corporations should be approached.

Facts

University Heights at Hamilton Corp. , a subchapter S corporation, received FSAAs from the Commissioner for the taxable years ending October 31, 1984, 1985, and 1986. The FSAAs indicated that the corporation was a "no change" case, meaning no adjustments were made to the reported corporate income, losses, deductions, or credits. However, the FSAAs did adjust items such as capital stock, loans payable and receivable, and other items that affected the shareholders' bases. The Commissioner determined that two of the three shareholders had insufficient bases to support their claimed losses on their individual tax returns.

Procedural History

The tax matters person (TMP) did not file a petition within the applicable period. A person other than the TMP filed a petition for readjustment of S corporation items. The petitioner moved to dismiss for lack of jurisdiction, arguing that the adjustments only affected shareholder basis and not subchapter S items. The Commissioner conceded that shareholder basis was not a subchapter S item subject to the Court's jurisdiction in this proceeding but argued that the Court had jurisdiction over the other items listed in the FSAAs.

Issue(s)

1. Whether the U. S. Tax Court has jurisdiction over subchapter S items that affect shareholder basis but do not change the corporation's income, losses, deductions, or credits.

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Holding

1. Yes, because the Court has jurisdiction over subchapter S items as defined by the regulations, even if those items affect shareholder basis, but it does not have jurisdiction over the determination of shareholder basis itself.

Court’s Reasoning

The Court’s decision hinged on the statutory and regulatory framework governing subchapter S corporations. It relied on the definition of subchapter S items under section 6245 and the temporary regulations, which state that subchapter S items are those more appropriately determined at the corporate level. The Court emphasized that the items adjusted in the FSAAs, such as capital stock and loans, were subchapter S items that should be determined at the corporate level, even though they affected shareholder basis. The Court distinguished its jurisdiction over these items from the determination of shareholder basis, which is a shareholder-level issue. The Court also noted that the issuance of an FSAA, even one indicating no change, meets the statutory requirement for jurisdiction if a timely petition is filed. The Court’s reasoning was supported by precedent, such as Dial U. S. A. , Inc. v. Commissioner, which clarified that shareholder basis is not a subchapter S item.

Practical Implications

This decision clarifies the scope of the U. S. Tax Court’s jurisdiction in subchapter S corporation cases, emphasizing that it can review and determine subchapter S items at the corporate level, even if those items impact shareholder basis. Practitioners must ensure that petitions filed in response to FSAAs focus on subchapter S items rather than shareholder basis issues. The ruling may lead to more careful drafting of FSAAs by the IRS to avoid including non-subchapter S items. Businesses operating as subchapter S corporations should be aware that corporate-level adjustments can affect shareholder basis, but disputes over basis itself must be resolved at the shareholder level. Subsequent cases, such as Hang v. Commissioner, have applied this ruling to similar jurisdictional questions in subchapter S corporation proceedings.

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