Cambridge Research & Dev. Group v. Commissioner, 97 T. C. 287, 1991 U. S. Tax Ct. LEXIS 78, 97 T. C. No. 19 (1991)

A general partner, not the tax matters partner, can extend the statute of limitations for partnership tax assessments if authorized by the partnership agreement or state law.

Summary

In Cambridge Research & Dev. Group v. Commissioner, the U. S. Tax Court determined that Lawrence Sherman, a general partner, had the authority to extend the statute of limitations for partnership tax assessments for the year 1983, despite not being the tax matters partner. The partnership agreement and Connecticut state law granted him sufficient agency to act on behalf of the partnership and its partners. The court held that such authority, stemming from both the partnership agreement and state law, satisfied the requirement of I. R. C. § 6229(b)(1)(B) for a written authorization by the partnership. This case clarifies that general partners can extend the assessment period for all partners under certain conditions, impacting how partnerships manage their tax affairs and engage with the IRS.

Facts

Cambridge Research and Development Group was a Connecticut limited partnership formed in 1966, engaged in developing and licensing inventions. Lawrence Sherman and his twin brother Kenneth Sherman were the only general partners from 1966 until October 1984, when Kenneth resigned and became a limited partner. In 1983, both had equal profits interests. In September 1986, Lawrence signed a Form 872-O consent to extend the period for assessing tax attributable to partnership items for 1983. No separate written authorization specifically allowed Lawrence to extend the statute of limitations. The partnership agreement empowered general partners to conduct the partnership's business and granted them power of attorney to act on behalf of the partnership and limited partners.

Procedural History

The case began with a motion to dismiss for lack of jurisdiction, which was denied in T. C. Memo. 1989-679. Subsequently, the parties agreed to separate the statute of limitations issue and submit it without trial for decision. The Tax Court then addressed whether Lawrence's execution of the consent was effective under I. R. C. § 6229(b)(1)(B).

Issue(s)

1. Whether Lawrence Sherman was the tax matters partner for the partnership's 1983 taxable year.
2. Whether Lawrence Sherman, as a general partner, had the authority under I. R. C. § 6229(b)(1)(B) to extend the period of limitations for assessing tax against all

partners of the partnership for the 1983 taxable year.

Holding

1. No, because Kenneth Sherman was the tax matters partner for 1983, as he had an equal profits interest and his name took alphabetic precedence.
2. Yes, because Lawrence Sherman was authorized in writing by the partnership to extend the period of limitations, as provided by the partnership agreement and Connecticut law.

Court's Reasoning

The court applied the rules of I. R. C. § 6231(a)(7) to determine the tax matters partner, concluding that Kenneth, not Lawrence, was the tax matters partner for 1983. However, the court found that Lawrence had the authority to extend the statute of limitations under I. R. C. § 6229(b)(1)(B). This authority stemmed from both the partnership agreement, which allowed general partners to conduct partnership business and act as attorneys in fact for limited partners, and Connecticut's Uniform Partnership and Limited Partnership Acts, which granted general partners agency to act on behalf of the partnership. The court reasoned that extending the period of limitations was within the scope of partnership business, as it directly related to partnership tax matters. The court also noted that the partnership agreement's broad language satisfied the statute's requirement for written authorization, even though it did not specifically mention extending the statute of limitations. The court's decision was influenced by policy considerations to facilitate efficient tax administration at the partnership level, consistent with the unified partnership audit provisions.

Practical Implications

This decision clarifies that general partners may extend the statute of limitations for partnership tax assessments if they are authorized by the partnership agreement or state law, even if not designated as the tax matters partner. Practitioners should review partnership agreements to ensure they grant sufficient authority to general partners for such actions. This ruling may influence how partnerships structure their agreements and interact with the IRS, potentially simplifying the process of extending assessment periods. The case has been cited in subsequent decisions, such as Amesbury Apartments, Ltd. v. Commissioner, where similar issues of partner authority were addressed. It underscores the importance of clear delineation of authority in partnership agreements and the impact of state partnership laws on federal tax matters.

