***Affiliated Equipment Leasing II v. Commissioner, 97 T. C. 575 (1991); 1991 U. S. Tax Ct. LEXIS 102; 97 T. C. No. 40***

The U. S. Tax Court lacks jurisdiction to determine the applicability of section 6621(c) interest at the partnership level as it is an affected item that must be determined at the individual partner level.

**Summary**

In Affiliated Equipment Leasing II v. Commissioner, the U. S. Tax Court addressed its jurisdiction over section 6621(c) interest in a partnership-level proceeding. The case arose when petitioners, partners in the partnership, contested the IRS's determination that adjustments made in the Final Partnership Administrative Adjustments (FPAAs) were attributable to tax-motivated transactions, potentially leading to increased interest under section 6621(c). The court held that section 6621(c) interest is an "affected item," not a "partnership item," and thus cannot be adjudicated at the partnership level. This decision reinforces the jurisdictional boundaries set by Congress for partnership-level proceedings and underscores the necessity of individual partner-level determinations for affected items like section 6621(c) interest.

**Facts**

The IRS issued Notices of Final Partnership Administrative Adjustment (FPAAs) to the tax matters partner (TMP) of Affiliated Equipment Leasing II for the taxable years 1983 and 1984. The FPAAs were also sent to notice partners. When the TMP did not file a petition within the prescribed time, notice partners timely filed a petition contesting the FPAAs, specifically challenging the IRS's determination that the adjustments resulted from tax-motivated transactions under section 6621(c)(3). The IRS moved to dismiss for lack of jurisdiction over section 6621(c) interest in the partnership-level proceeding, a motion the court granted.

**Procedural History**

The IRS issued FPAAs on October 3, 1990, to the TMP and notice partners of Affiliated Equipment Leasing II. The TMP did not file a petition within the 90-day period under section 6226(a). On January 7, 1991, notice partners filed a petition contesting the FPAAs. The IRS filed a motion to dismiss for lack of jurisdiction regarding section 6621(c) interest on March 4, 1991, which the court granted on March 5, 1991. The petitioners then filed a motion to reconsider on March 25, 1991, leading to this opinion.

**Issue(s)**

1. Whether the U. S. Tax Court has jurisdiction to determine at the partnership level whether adjustments in the FPAAs are attributable to a tax-motivated transaction under section 6621(c).

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## Holding

1. No, because section 6621(c) interest is an “affected item” that can only be determined at the individual partner level, not at the partnership level.

## Court’s Reasoning

The court reasoned that partnership items, as defined by section 6231(a)(3), are limited to items under subtitle A of the Internal Revenue Code, while section 6621(c) is found in subtitle F. Thus, section 6621(c) interest is not a partnership item. The court referenced prior cases like N. C. F. Energy Partners and White, which established that section 6621(c) interest is an “affected item” requiring individual partner-level determinations. The court rejected the petitioners’ argument based on Farris, clarifying that Farris pertains to the necessity of concluding partnership proceedings before assessing deficiencies related to affected items. The court also dismissed the petitioners’ interpretation of section 301. 6231(a)(3)-1(b), Proced. & Admin. Regs. , stating that “characterization” in this context refers to the nature of gains or losses (e. g. , capital or ordinary) and not to determinations of tax-motivated transactions. The court acknowledged the lack of a prepayment forum for contesting section 6621(c) interest but affirmed its jurisdictional limits as set by Congress.

## Practical Implications

This decision clarifies that the U. S. Tax Court cannot adjudicate the applicability of section 6621(c) interest at the partnership level. Practitioners must understand that adjustments related to tax-motivated transactions under section 6621(c) can only be contested at the individual partner level, impacting how partnership audits are conducted and how partners may challenge IRS determinations. This ruling may affect how partnerships structure their affairs and how they respond to IRS adjustments, as individual partners must now address section 6621(c) interest separately. Subsequent cases like Barton and Powell have further delineated the court’s jurisdiction over section 6621(c) interest in different contexts, reinforcing the necessity of individual-level proceedings for such determinations.

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