

## ***T.C. Memo. 1993-427***

The Tax Court lacks jurisdiction in a partner-level proceeding to redetermine deficiencies attributable to partnership items, as the determination of partnership items must occur at the partnership level under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA).

### **Summary**

In this case, the petitioner, a limited partner in Harvard Associates 82-1, challenged a notice of deficiency that arose from adjustments made at the partnership level. The IRS issued a Final Partnership Administrative Adjustment (FPAA) to Harvard, and subsequently, a notice of deficiency to the petitioner reflecting his share of the partnership adjustments. The petitioner argued the Tax Court had jurisdiction because the deficiency notice referenced a specific dollar amount and because of alleged procedural defects in the FPAA process. The Tax Court held that it lacked jurisdiction to redetermine partnership items in a partner-level proceeding, emphasizing that TEFRA mandates partnership-level determinations for such items. The court clarified that a deficiency notice related to affected items does not confer jurisdiction over the underlying partnership items and that notice of computational adjustment is not a prerequisite for a deficiency notice in such cases.

### **Facts**

Petitioner was a limited partner in Harvard Associates 82-1, a partnership formed in 1982. Harvard filed a partnership return for 1982. The IRS issued a Notice of Beginning of Administrative Proceeding (NBAP) and later a Final Partnership Administrative Adjustment (FPAA) to Harvard regarding its 1982 tax year. These notices were sent to the Tax Matters Partner (TMP) and the partnership address listed on the return. The FPAA adjusted Harvard's distributive share of losses from another partnership, Very Safe Ltd., which consequently reduced the petitioner's distributive share of losses from Harvard. Subsequently, the IRS issued a notice of deficiency to the petitioner, which included additions to tax based on the partnership adjustments.

### **Procedural History**

The IRS issued a Notice of Beginning of Administrative Proceeding (NBAP) to Harvard's TMP. A Final Partnership Administrative Adjustment (FPAA) was issued to Harvard and the TMP. Petitioner received a notice of deficiency reflecting adjustments from the FPAA. Petitioner then filed a petition with the Tax Court, contesting the deficiency. The IRS moved to dismiss for lack of jurisdiction, arguing that the issues pertained to partnership items determinable only at the partnership level under TEFRA.

### **Issue(s)**

1. Whether the Tax Court has jurisdiction in a partner-level proceeding to redetermine a deficiency attributable to partnership items.
2. Whether the failure to issue a notice of computational adjustment prior to a notice of deficiency for affected items invalidates the deficiency notice and affects the Tax Court's jurisdiction.

## **Holding**

1. No, because under TEFRA, the tax treatment of partnership items must be determined at the partnership level, and the Tax Court lacks jurisdiction in a partner-level proceeding to redetermine issues related to partnership items.
2. No, because the issuance of a notice of computational adjustment is not a statutory prerequisite to issuing a notice of deficiency for affected items.

## **Court's Reasoning**

The court reasoned that TEFRA established a comprehensive system for determining the tax treatment of partnership items at the partnership level. Quoting section 6231(a)(3), the court defined a partnership item as any item required to be taken into account for the partnership's taxable year, more appropriately determined at the partnership level. The court cited precedent, including *Saso v. Commissioner* and *Maxwell v. Commissioner*, reiterating that it lacks jurisdiction in partner-level proceedings to redetermine deficiencies arising from partnership items. The court dismissed the petitioner's argument that the deficiency notice itself conferred jurisdiction, stating, "While a deficiency notice is a necessary requisite to the commencement of a case in this Court, this simply is a procedural precondition and in no way operates to confer jurisdiction upon us over substantive issues."

Regarding the notice of computational adjustment, the court referred to section 6230(a)(1), which states that deficiency procedures do not apply to computational adjustments. However, the court clarified that this does not mandate a notice of computational adjustment before a deficiency notice for nonpartnership or affected items. The court cited *Carmel v. Commissioner* and *N.C.F. Energy Partners v. Commissioner* to emphasize the distinction between computational adjustments and affected items, noting that a deficiency notice is required for affected items, like additions to tax in this case, but not preceded by a mandatory computational adjustment notice. The court concluded, "the failure of respondent to issue a notice of computational adjustment as to partnership items is not a precondition to the issuance of a statutory notice of deficiency in respect of affected items based on such partnership items."

## **Practical Implications**

*Bradley v. Commissioner* reinforces the jurisdictional limitations of the Tax Court in partner-level proceedings under TEFRA. It clarifies that partners cannot relitigate partnership items in their individual tax cases. Legal practitioners must understand

that challenges to partnership adjustments generally must occur at the partnership level through an action to readjust partnership items following an FPAA. This case highlights the importance of adhering to TEFRA's procedural framework and distinguishing between partnership items, nonpartnership items, and affected items. It also confirms that a notice of deficiency related to affected items (like penalties linked to partnership adjustments) is valid even without a prior notice of computational adjustment. This decision guides tax attorneys in determining the proper forum and procedures for disputing tax adjustments arising from partnership activities and emphasizes the primacy of partnership-level proceedings for partnership item disputes.