Boyd v. Commissioner, 101 T. C. 372 (1993)

The TEFRA partnership provisions can extend the statute of limitations for assessing tax deficiencies related to partnership items beyond the general three-year period under section 6501(a).

Summary

In Boyd v. Commissioner, the Tax Court addressed whether the IRS could issue a second notice of deficiency for the 1983 tax year due to partnership losses from Regal Laboratories, Ltd. , a TEFRA partnership. The court held that the TEFRA provisions allowed the IRS to assess tax deficiencies related to partnership items beyond the general statute of limitations, validating the second notice of deficiency. The case clarified that TEFRA partnership items must be resolved at the partnership level, and the IRS could issue a second notice of deficiency for the same tax year without being barred by res judicata or section 6212(c) when the first notice was invalid.

Facts

Lee C. Boyd and his wife invested $24,000 in Regal Laboratories, Ltd. , a limited partnership formed to exploit agricultural biotechnologies. They claimed a $120,000 partnership loss on their 1983 tax return. The IRS issued a first notice of deficiency in 1987, which was untimely under section 6501(a). In 1988, the IRS conducted a TEFRA partnership audit of Regal, disallowing its research and development deductions. Boyd did not receive timely notice of the TEFRA proceeding. In 1991, the IRS issued a second notice of deficiency, disallowing Boyd’s Regal loss and part of his medical expense deduction.

Procedural History

The IRS issued a first notice of deficiency in 1987, which Boyd contested in the Tax Court (docket No. 29725-87). The case was resolved by stipulation that Boyd was not liable for a deficiency. In 1988, the IRS conducted a TEFRA audit of Regal, issuing an FPAA. Boyd did not receive timely notice of this proceeding. In 1991, the IRS issued a second notice of deficiency, which Boyd contested, leading to the Tax Court’s decision in 1993.

Issue(s)

1. Whether the statute of limitations under section 6501(a) bars assessment of tax related to Boyd’s Regal partnership deduction.
2. Whether the second notice of deficiency is barred by res judicata or section 6212(c).
3. Whether Boyd may deduct a $120,000 partnership loss for Regal.
4. Whether Boyd is liable for increased interest under section 6621(c).

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Holding

1. No, because the TEFRA partnership provisions under section 6229 apply to partnership items, extending the statute of limitations beyond the general three-year period.
2. No, because the first notice of deficiency was invalid, and section 6230(a)(2)(C) allows a second notice for partnership items.
3. No, because Boyd failed to prove that Regal's losses were valid.
4. Yes, because Boyd's investment in Regal was a tax-motivated transaction under section 6621(c).

Court's Reasoning

The court reasoned that the TEFRA partnership provisions govern the assessment of tax deficiencies related to partnership items, overriding the general statute of limitations under section 6501(a). The court emphasized that partnership items must be resolved at the partnership level, as stated in Maxwell v. Commissioner: "By enacting the partnership audit and litigation procedures, Congress provided a method for uniformly adjusting items of partnership income, loss, deduction, or credit that affect each partner. " The court found that Boyd's Regal deduction was a partnership item, and the IRS's second notice of deficiency was timely under section 6229(f). The court rejected Boyd's res judicata argument, noting that the first notice was invalid and did not preclude a second notice for partnership items. The court also upheld the disallowance of Boyd's Regal loss and his liability for increased interest, citing the lack of evidence supporting the loss and the tax-motivated nature of the investment.

Practical Implications

This decision clarifies that the TEFRA partnership provisions can extend the statute of limitations for assessing tax deficiencies related to partnership items. Practitioners should be aware that partnership items must be resolved at the partnership level, and the IRS may issue a second notice of deficiency for the same tax year if the first notice was invalid or did not address partnership items. This case also underscores the importance of timely notice in TEFRA proceedings and the potential consequences of failing to elect to be bound by a partnership-level decision. The decision reinforces the IRS's ability to disallow deductions from tax shelter partnerships and impose increased interest for tax-motivated transactions.

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