Mecom v. Commissioner, 101 T. C. 374 (1993)

A taxpayer and the IRS may extend the statute of limitations on assessment using a restricted consent form, which may limit the scope of adjustments the IRS can make.

Summary

John W. Mecom, Jr. , and Katsy Mecom filed a 1976 tax return claiming an NOL deduction. The IRS examined this return, and the taxpayers signed six consents to extend the statute of limitations, with the last consent (Form 872-A) being indefinite and restricted. The IRS adjusted the taxpayers' 1976 NOL deduction based on prior years' adjustments. The court held that the consents were valid, the doctrine of laches did not apply, and the IRS's adjustments were within the scope of the restricted consent. The taxpayers failed to prove the IRS's deficiency calculation was incorrect.

Facts

John W. Mecom, Jr. , and Katsy Mecom filed their 1976 tax return on October 15, 1977, claiming an NOL deduction of $861,019. The IRS began examining this return in 1979. The taxpayers signed six consents (Forms 872 and 872-A) to extend the statute of limitations for assessment. The last consent, Form 872-A, extended the period indefinitely and included restrictive language limiting adjustments to certain items, including carryovers from prior years. The IRS adjusted the taxpayers' 1976 NOL deduction based on prior years' adjustments and issued a notice of deficiency in 1991.

Procedural History

The taxpayers petitioned the U. S. Tax Court for redetermination of the deficiency. The court considered whether the consents were valid, whether the equitable doctrine of laches barred assessment, whether the restrictive language in Form 872-A allowed the IRS to adjust the 1976 NOL deduction, and whether the taxpayers proved the IRS's deficiency calculation was incorrect.

Issue(s)

1. Whether the consents executed by the parties were effective to extend the period of limitation under section 6501 for assessment of a deficiency for 1976.
2. Whether the equitable doctrine of laches bars assessment of a deficiency for 1976.
3. Whether the restrictive language in Form 872-A bars the IRS from adjusting the taxpayers' 1976 NOL deduction.
4. Whether the taxpayers have shown that the IRS incorrectly determined their income tax deficiency for 1976.

Holding

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1. Yes, because the consents were valid on their face, properly executed, and extended the statute of limitations as required by section 6501(c)(4).
2. No, because the doctrine of laches does not apply to extend the statute of limitations under section 6501, and the taxpayers could have terminated the extension at any time.
3. No, because the restrictive language in Form 872-A allowed the IRS to adjust the taxpayers' 1976 NOL deduction based on carryovers from prior years.
4. No, because the taxpayers failed to present credible evidence to rebut the IRS's determination of their NOL deduction.

Court's Reasoning

The court found that the consents were valid because they were signed by both parties, included all required information, and were executed within the statutory period or prior extensions. The court rejected the taxpayers' arguments that there was no mutual assent, that Form 872-A was not properly mailed, and that the IRS's signatories lacked authority. The court held that laches did not apply because the taxpayers could have terminated the extension at any time. The court interpreted the restrictive language in Form 872-A to allow the IRS to adjust the taxpayers' 1976 NOL deduction based on carryovers from prior years. The court gave no weight to the taxpayers' expert testimony and found that they failed to prove the IRS's deficiency calculation was incorrect.

Practical Implications

This decision clarifies that taxpayers and the IRS can use restricted consent forms to extend the statute of limitations while limiting the scope of adjustments the IRS can make. Taxpayers should carefully review the language of such consents and understand their ability to terminate the extension. The decision also emphasizes that the doctrine of laches does not apply to extend the statute of limitations under section 6501. Practitioners should advise clients to challenge the merits of adjustments in Forms 875 rather than relying on them as binding. This case may be cited in future disputes over the validity and scope of restricted consents and the IRS's ability to adjust NOL deductions based on prior years.

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