Bugaboo Timber Co. v. Commissioner, 97 T. C. 481 (1991); Davidson Industries, Inc. v. Commissioner, 97 T. C. 481 (1991)

Corporate officers with broad authority under corporate bylaws can extend the period of limitations for tax assessment on behalf of an S corporation, even without specific designation as the Tax Matters Person.

Summary

In Bugaboo Timber Co. and Davidson Industries, Inc. , the Tax Court held that corporate officers with broad authority under corporate bylaws could validly extend the period of limitations for tax assessments for their respective S corporations. The court found that the officers' authority to sign consents was not affected by their lack of formal designation as Tax Matters Persons (TMPs). The decision emphasized the importance of corporate bylaws and resolutions in determining the authority of officers to act on behalf of the corporation in tax matters, clarifying the application of TEFRA partnership provisions to S corporations.

Facts

Bugaboo Timber Co. and Davidson Industries, Inc. , both S corporations, had their tax returns examined by the IRS for certain fiscal years. Vernon R. Morgan, Bugaboo's secretary-treasurer, and Don-Lee Davidson, Industries' president, signed consents to extend the period of limitations for tax assessments. Neither corporation had formally designated a TMP. Morgan and Davidson were treated as TMPs by the IRS due to their roles and actions in dealing with tax matters. The corporate bylaws of both companies granted broad authority to Morgan and Davidson to act on behalf of their corporations.

Procedural History

The IRS issued notices of final S corporation administrative adjustments to both companies, prompting them to challenge the validity of the consents signed by Morgan and Davidson. The cases were consolidated and heard by the Tax Court, which focused on whether the consents were validly executed by authorized representatives of the corporations.

Issue(s)

1. Whether Vernon R. Morgan and Don-Lee Davidson, as corporate officers, were authorized to extend the period of limitations for tax assessments on behalf of Bugaboo and Industries, respectively, despite not being formally designated as TMPs.

Holding

1. Yes, because the corporate bylaws and resolutions granted them broad authority

to act on behalf of their corporations, including the execution of tax-related documents.

Court's Reasoning

The court applied principles from prior cases involving partnerships to S corporations, concluding that broad corporate authority granted through bylaws and resolutions was sufficient to authorize officers to sign consents extending the period of limitations. The court emphasized that Morgan and Davidson were the officers with ultimate authority over general tax matters for their respective corporations. The court rejected arguments that the bylaws needed to specifically mention the TEFRA partnership provisions or be signed by all shareholders to be valid. The decision highlighted that corporate officers acting within their authorized scope can bind the corporation, even if not formally designated as TMPs, as long as they are acting under broad corporate authority.

Practical Implications

This decision clarifies that S corporations should ensure their bylaws and resolutions clearly define the authority of officers in tax matters. It emphasizes the importance of reviewing and possibly amending corporate governance documents to reflect the intended scope of authority for officers, particularly in light of tax-related responsibilities. The ruling may influence how S corporations handle tax audits and extensions, ensuring that officers with broad authority are aware of their responsibilities and limitations. Future cases involving similar issues may rely on this precedent to determine the validity of actions taken by corporate officers in tax matters without formal TMP designation.

