Ripley v. Commissioner, 102 T. C. 646 (1994)

The IRS can collect gift taxes from a donee under a special gift tax lien without being subject to the usual deficiency procedures.

Summary

In Ripley v. Commissioner, the court ruled that the IRS could enforce a special gift tax lien against a donee, Joseph M. Ripley, Jr. , to collect unpaid gift taxes from his mother, Mildred M. Ripley, without adhering to the usual deficiency procedures under IRC section 6213(a). The court held that the special lien under section 6324(b) operates independently of the general lien and transferee liability provisions, allowing the IRS to proceed with collection actions even while a petition for redetermination of the donee's transferee liability was pending. This decision clarifies that the IRS has the authority to pursue collection under the special gift tax lien without needing to wait for the outcome of deficiency proceedings, impacting how similar cases involving gift tax collection should be handled.

Facts

In 1983, Mildred M. Ripley transferred property to her son, Joseph M. Ripley, Jr. She underreported the value of the gifts on her federal gift tax return, leading to a deficiency assessment against her in 1992. After selling parts of the gifted property, Joseph received notices of federal tax lien and levy from the IRS in 1993, asserting his liability as a transferee. Joseph filed a petition for redetermination of this transferee liability but also sought to restrain the IRS's collection efforts, arguing they violated section 6213(a)'s prohibition on assessment and collection during pending deficiency proceedings.

Procedural History

The Tax Court entered a stipulated decision against Mildred M. Ripley in 1992, assessing a gift tax deficiency. In 1993, the IRS issued notices of federal tax lien and levy against Joseph M. Ripley, Jr. Joseph filed a petition for redetermination of his transferee liability and a motion to restrain the IRS's collection efforts. The Tax Court denied Joseph's motion, upholding the IRS's right to enforce the special gift tax lien under section 6324(b).

Issue(s)

1. Whether the IRS's collection efforts under the special gift tax lien (section 6324(b)) should be enjoined pursuant to section 6213(a) given that the donee has a timely petition for redetermination of transferee liability pending.

Holding

1. No, because the special gift tax lien under section 6324(b) operates independently

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of the usual deficiency procedures, allowing the IRS to pursue collection without being restrained by section 6213(a).

Court’s Reasoning

The court reasoned that the special gift tax lien under section 6324(b) and the general lien under section 6321 are cumulative and independent. The court relied on the regulation section 301. 6324-1(d) and case law such as United States v. Geniviva and United States v. Russell, which established that the IRS can collect estate or gift taxes under the special lien without first assessing the transferee under section 6901. The court emphasized that the special lien’s purpose is to ensure tax collection from the donee’s property, including after-acquired property, even if the original gifted property is transferred. The court also noted that Congress did not subject collection under section 6324(b) to the normal deficiency procedures, thus allowing the IRS to enforce the lien while the transferee liability was still under dispute.

Practical Implications

This decision clarifies that the IRS can use the special gift tax lien to collect from a donee without waiting for the outcome of a deficiency proceeding. Attorneys advising clients on gift tax matters should be aware that the IRS has multiple, concurrent avenues for collection, including the special gift tax lien, which can be enforced independently of the general lien and transferee liability provisions. This ruling may encourage the IRS to more aggressively pursue collection under special liens, impacting estate planning and gift tax strategies. Future cases involving gift tax collection will need to consider this decision, potentially affecting how taxpayers challenge IRS collection efforts.

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