McWilliams v. Commissioner, T. C. Memo 1994-434

A jeopardy assessment must meet specific criteria to be considered reasonable, including evidence of taxpayer flight, asset concealment, or financial insolvency.

Summary

McWilliams v. Commissioner addresses the criteria for the reasonableness of a jeopardy assessment. The IRS imposed a jeopardy assessment on Robert Lee McWilliams after he sold his property and moved, suspecting he intended to flee or dissipate assets. The court found the assessment unreasonable because McWilliams did not meet any of the three regulatory conditions: he did not flee the country, did not conceal or dissipate assets, and his financial solvency was not imperiled. This decision emphasizes that jeopardy assessments must be supported by clear evidence of one of these conditions, impacting how the IRS should approach such assessments in the future.

Facts

Robert Lee McWilliams sold his New Mexico property for $280,000 and moved to Vancouver, Washington. The IRS issued a jeopardy assessment on July 8, 1994, believing McWilliams intended to flee the country or dissipate assets. McWilliams had established an escrow account for disputed taxes as part of his divorce agreement and deposited the sale proceeds into a bank account in his name. The IRS relied on affidavits suggesting McWilliams might move to Canada, Oregon, or Washington, and that he might dissipate the proceeds from the property sale.

Procedural History

McWilliams filed a motion for review of the jeopardy assessment and levy on August 11, 1994, in the U. S. Tax Court. The IRS responded on August 22, 1994, with affidavits supporting the assessment’s reasonableness. McWilliams filed counter-affidavits on August 24, 1994. The Tax Court, under Judge Parr, reviewed the case de novo to determine the reasonableness of the assessment and the appropriateness of the amount assessed.

Issue(s)

1. Whether the jeopardy assessment and levy were reasonable under the circumstances.
2. Whether the amount assessed was appropriate under the circumstances.

Holding

1. No, because the IRS failed to prove that McWilliams met any of the three regulatory conditions for a jeopardy assessment: flight, asset concealment or dissipation, or financial insolvency.

© 2025 SCOTUSreports.com. All rights reserved.

2. No, because the court did not need to consider the appropriateness of the amount assessed since the assessment itself was deemed unreasonable.

Court’s Reasoning

The court analyzed the IRS’s justification for the jeopardy assessment under the three conditions set forth in the regulations: (i) the taxpayer is or appears to be designing quickly to depart from the United States or to conceal himself; (ii) the taxpayer is or appears to be designing quickly to place his property beyond the reach of the Government; and (iii) the taxpayer’s financial solvency is or appears to be imperiled. The court found no evidence supporting any of these conditions. McWilliams had moved within the U. S. , not fled the country, and had openly deposited the sale proceeds into a bank account. The court also noted the escrow account established for tax payment as evidence of McWilliams’s intent to pay his taxes. The court emphasized that the IRS must prove reasonableness with evidence directly tied to one of the three conditions, and hearsay or assumptions are insufficient. The court cited previous cases to reinforce that the three conditions are the sole criteria for a reasonable jeopardy assessment.

Practical Implications

This decision impacts how the IRS should approach jeopardy assessments. It reinforces that such assessments must be based on solid evidence of one of the three regulatory conditions. For legal practitioners, it provides a clear framework for challenging jeopardy assessments, emphasizing the need to demonstrate that none of the conditions are met. For taxpayers, it highlights the importance of transparent financial dealings and communication with the IRS during legal disputes. The ruling may also influence future IRS policies on jeopardy assessments, pushing for more rigorous standards of evidence. Subsequent cases, such as Harvey v. United States, have similarly applied these criteria, further solidifying the court’s stance on the reasonableness of jeopardy assessments.

© 2025 SCOTUSreports.com. All rights reserved.