Miller v. Commissioner, 104 T. C. 378 (1995)

The limitations period for assessing tax on partnership items is suspended during the pendency of a judicial action regarding a Final Partnership Administrative Adjustment (FPAA) and for one year thereafter.

Summary

In Miller v. Commissioner, the Tax Court addressed the suspension of the limitations period for assessing tax related to partnership items. The Millers invested in Encore Leasing Corp. through Alamo East Enterprises, claiming tax credits for several years. The IRS issued an FPAA to Alamo East, which was challenged in the U. S. District Court and dismissed without prejudice. The Tax Court held that the limitations period was suspended during the judicial action and for one year after its dismissal, allowing the IRS to issue a timely notice of deficiency to the Millers. Additionally, the court upheld the addition to tax for a valuation overstatement, as the adjusted basis of the investment was determined to be zero.

Facts

Glenn E. and Sharon A. Miller invested in Encore Leasing Corp. through Alamo East Enterprises in 1983. They claimed tax credits for 1980, 1981, 1983, and 1984. The IRS issued an FPAA to a partner of Alamo East on July 8, 1987, regarding its 1983 return. Alamo East filed a petition in the U. S. District Court for the Northern District of California, which was dismissed without prejudice on July 20, 1988. Following the dismissal, the Millers paid the deficiencies. On July 20, 1989, the IRS mailed a notice of deficiency to the Millers regarding additions to tax for the years in question.

Procedural History

The IRS mailed an FPAA to Alamo East on July 8, 1987. Alamo East filed a petition in the U. S. District Court for the Northern District of California on November 27, 1987. The petition was dismissed without prejudice on July 20, 1988. The Millers paid the assessed deficiencies. On July 20, 1989, the IRS mailed a notice of deficiency to the Millers, leading them to file a motion for summary judgment in the Tax Court.

Issue(s)

1. Whether the period of limitations on assessment expired with respect to the years in issue.
2. Whether petitioners are liable for the addition to tax for a valuation overstatement under section 6659 for taxable years 1980, 1981, 1983, and 1984.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because the period of limitations was suspended during the pendency of the judicial action and for one year after the dismissal of the action became final.
2. Yes, because the adjusted basis of the investment was overstated, resulting in a valuation overstatement under section 6659.

Court's Reasoning

The Tax Court applied section 6229(d), which suspends the limitations period during the time an action may be brought under section 6226 and for one year thereafter. The court reasoned that even though the District Court dismissed the case without prejudice, section 6226(h) treats the dismissal as a decision that the FPAA is correct. Thus, the limitations period was suspended from July 8, 1987, until the dismissal became final and for an additional year, allowing the IRS to issue a timely notice of deficiency on July 20, 1989. For the second issue, the court relied on prior test cases (Wolf, Feldmann, and Garcia) where it was determined that the adjusted basis of the master recordings leased from Encore was zero, leading to a valuation overstatement. The court upheld the addition to tax under section 6659, as the Millers' claimed tax credits were based on an overstated value.

Practical Implications

This decision clarifies that the limitations period for assessing tax on partnership items is suspended during the pendency of judicial actions and for one year after their dismissal, even if dismissed without prejudice. Tax practitioners must be aware that such suspensions apply to all partners in the partnership, not just those directly involved in the litigation. The ruling also reinforces the application of valuation overstatement penalties under section 6659, particularly in cases where the adjusted basis of an investment is determined to be zero. This case has been cited in subsequent cases involving similar issues, such as O'Neill v. United States, emphasizing its continued relevance in tax law concerning partnership items and valuation overstatements.