Silverman v. Commissioner, 105 T. C. 157 (1995)

A closing agreement does not supersede an indefinite extension of the statute of limitations unless explicitly stated, allowing for assessments beyond the agreement's specified period.

Summary

In Silverman v. Commissioner, the U. S. Tax Court ruled that a closing agreement entered into by the taxpayer and the IRS did not override an earlier indefinite extension of the statute of limitations on tax assessments. The taxpayer, Silverman, had signed Form 872-A agreements indefinitely extending the assessment period for several years. Later, a closing agreement tied tax assessments to the outcome of a test case but did not mention the Form 872-A. Silverman argued that the closing agreement limited assessments to one year after the test case's final decision. The court held that the closing agreement merely allowed assessments within that year if the indefinite extension had been terminated, but did not restrict assessments beyond it. This ruling clarifies the interaction between closing agreements and indefinite extensions in tax law.

Facts

David R. Silverman and Meredith M. Silverman Marks entered into Form 872-A agreements with the IRS, indefinitely extending the statute of limitations for assessing income taxes for the years 1975, 1976, 1977, and 1980. Subsequently, they signed a Form 906 closing agreement related to their involvement in a tax shelter, Hampton Associates 1975. The closing agreement stipulated that their tax liabilities would be determined based on the outcome of a test case, Schwartz v. Commissioner, and allowed the IRS to assess taxes within one year after the final decision in Schwartz, "notwithstanding the expiration of any period of limitation. " After the Schwartz decision became final, Silverman submitted Forms 872-T to terminate the indefinite extensions, and the IRS issued deficiency notices within 90 days of receiving these forms but more than a year after the Schwartz decision.

Procedural History

The IRS issued notices of deficiency to Silverman for the years in question. Silverman petitioned the U. S. Tax Court, arguing that the statute of limitations had expired. The Tax Court reviewed the case and determined that the indefinite extensions remained effective despite the closing agreement.

Issue(s)

1. Whether the closing agreement superseded the indefinite extensions of the statute of limitations provided by the Form 872-A agreements.

Holding

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1. No, because the closing agreement did not explicitly terminate the indefinite extensions and merely allowed the IRS to assess taxes within one year after the Schwartz decision if the indefinite extension had been terminated.

Court's Reasoning

The court interpreted the closing agreement using contract law principles, focusing on the language within the agreement. The agreement used permissive language ("may") regarding assessments within one year after the Schwartz decision, suggesting it was intended as a safeguard for the IRS if the indefinite extension had been terminated prematurely. The court emphasized that the closing agreement did not reference the Form 872-A extensions and thus did not supersede them. The court also relied on similar cases like DeSantis v. United States and Hempel v. United States, which supported the interpretation that the closing agreement did not limit assessments to the specified one-year period if the indefinite extension remained in effect. The court rejected Silverman's argument that the closing agreement was a novation or substituted contract, as it did not involve a new party or a clear intent to replace the existing agreements.

Practical Implications

This decision underscores the importance of clear language in tax agreements and the need for taxpayers to understand the interplay between different types of agreements with the IRS. Practitioners should advise clients to carefully consider the terms of any agreement that might affect the statute of limitations, especially when dealing with indefinite extensions and closing agreements. The ruling suggests that taxpayers cannot unilaterally limit the IRS's assessment period through a closing agreement without explicitly addressing existing extensions. This case may influence how similar situations are handled in future tax disputes, reinforcing the IRS's ability to assess taxes under indefinite extensions even after the terms of a closing agreement have been met.

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