Estate of James T. Campion, Deceased, Leona Campion, Executrix, et al. v. Commissioner of Internal Revenue, 110 T. C. 165 (1998)

The Tax Equity and Fiscal Responsibility Act (TEFRA) settlement procedures do not apply to partnership taxable years before September 4, 1982.

Summary

In Estate of Campion v. Commissioner, investors in the Elektra Hemisphere tax shelters sought to vacate final decisions and obtain revised settlements based on more favorable terms offered earlier. The Tax Court denied their motions, ruling that TEFRA settlement procedures did not apply to pre-TEFRA years (1979-1982). The court found no obligation for the IRS to extend earlier settlement terms to later settling taxpayers, rejecting claims of fraud and emphasizing that all taxpayers were treated consistently based on the litigation timeline.

Facts

Investors in the Elektra Hemisphere tax shelters, including the Estate of James T. Campion, had settled their cases with the IRS based on the no-cash settlement terms available after the Krause test case decision in 1992. They later sought to vacate these settlements and obtain revised agreements reflecting the cash settlement terms offered in 1986-1988. The IRS had progressively offered less favorable settlements as the litigation progressed, with deadlines for each offer. The taxpayers alleged that the IRS failed to disclose the earlier, more favorable settlements, constituting a fraud on the court.

Procedural History

The taxpayers filed motions in the Tax Court to vacate the final decisions entered in their cases and to compel the IRS to enter into new settlement agreements. The Tax Court consolidated these motions with similar motions from other taxpayers involved in the Elektra Hemisphere tax shelters.

Issue(s)

1. Whether the TEFRA settlement procedures apply to partnership taxable years before September 4, 1982.
2. Whether the IRS had a duty to offer all taxpayers the most favorable settlement terms ever offered to any taxpayer in the Elektra Hemisphere tax shelters.
3. Whether the IRS's failure to disclose prior settlement offers constituted a fraud on the court.

Holding

1. No, because the TEFRA provisions, including the settlement procedures, expressly apply only to partnership taxable years beginning after September 3,

1982.
2. No, because absent a contractual agreement or impermissible discrimination, the IRS is not required to offer the same settlement terms to similarly situated taxpayers.
3. No, because the taxpayers failed to provide clear, unequivocal, and convincing evidence of fraud on the court.

Court's Reasoning

The court applied the plain language of TEFRA, which limits its application to partnership taxable years beginning after September 3, 1982. The court rejected the taxpayers' interpretation of section 6224(c)(2), which they argued required consistent settlement terms across all years once a partnership became subject to TEFRA for any year. The court cited prior cases like Consolidated Cable and Ackerman to support its view that TEFRA settlement procedures do not apply to pre-TEFRA years. The court also found no evidence of fraud, noting that the taxpayers' counsel likely knew of all settlement offers and that the IRS treated all taxpayers consistently based on the litigation timeline. The court emphasized that the IRS's settlement positions changed over time based on the "hazards of litigation" and that the taxpayers chose to settle based on the terms available at the time of their settlement.

Practical Implications

This decision clarifies that TEFRA settlement procedures do not apply to pre-TEFRA years, limiting the ability of taxpayers to challenge settled cases based on more favorable terms offered earlier. Practitioners should be aware that the IRS is not obligated to offer the same settlement terms to all taxpayers unless there is a contractual agreement or evidence of impermissible discrimination. The case also underscores the importance of timely settlement, as the IRS may offer less favorable terms as litigation progresses. This ruling has been applied in subsequent cases involving similar tax shelter disputes, reinforcing the principle that taxpayers must accept the settlement terms available at the time they choose to settle.

