Greenberg Bros. P'ship #4 v. Commissioner, 111 T. C. 198 (1998)

For consistent settlement terms under IRC sec. 6224(c)(2), settlement agreements must be self-contained and comprehensive, not based on concessions of nonpartnership items.

Summary

In Greenberg Bros. P'ship #4 v. Commissioner, the Tax Court addressed whether a settlement agreement that included both partnership and nonpartnership items was subject to the consistent settlement provisions of IRC sec. 6224(c)(2). The case involved multiple partnerships formed to purchase film rights, where the IRS had settled with some partners but refused to offer the same terms to others who sought only the partnership item benefits. The court upheld the validity of the temporary regulation requiring settlements to be self-contained and comprehensive, ruling that such mixed agreements were not subject to consistent settlement requirements. This decision emphasizes the necessity for clear delineation between partnership and nonpartnership items in settlement agreements to maintain the integrity of the TEFRA consistent settlement process.

Facts

The Greenberg Brothers formed several partnerships to acquire film rights, including Breathless Associates, Lone Wolf McQuade Associates, and others. The IRS issued Final Partnership Administrative Adjustments (FPAAs) for these partnerships, and some partners entered into settlement agreements that included concessions on both partnership and nonpartnership items, such as the partners' at-risk amounts. Other partners, seeking only the partnership item concessions without the nonpartnership item burdens, requested consistent settlement terms under IRC sec. 6224(c)(2). The IRS refused these requests, leading to the dispute.

Procedural History

The IRS issued FPAAs to the partnerships between June 1991 and March 1994. Some partners settled with the IRS in February 1995, and others filed petitions in the U. S. Tax Court from August 1991 to July 1994. The Tax Court consolidated these cases and addressed the consistent settlement issue in 1998, ruling on the validity of the temporary regulation and its application to the settlement agreements in question.

Issue(s)

1. Whether participants are entitled to consistent settlement terms under IRC sec. 6224(c)(2) when the original settlement agreements include concessions of both partnership and nonpartnership items.
2. Whether the temporary regulation sec. 301. 6224(c)-3T(b) is valid in requiring settlement agreements to be self-contained and comprehensive.

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Holding

1. No, because the original settlement agreements were not self-contained and comprehensive as required by the temporary regulation. The agreements included concessions of nonpartnership items, which disqualified them from consistent settlement under IRC sec. 6224(c)(2).
2. Yes, because the temporary regulation is a permissible interpretation of IRC sec. 6224(c)(2), consistent with the broader legislative purpose of TEFRA to ensure uniform adjustment of partnership items.

Court's Reasoning

The court applied the Chevron analysis to determine the validity of the temporary regulation. It found that IRC sec. 6224(c)(2) is silent on the scope of consistent settlements, leaving room for the IRS to promulgate regulations. The court upheld the regulation's requirement that settlements must be self-contained (not based on concessions of nonpartnership items) and comprehensive (not limited to selected items) to maintain the integrity of the TEFRA settlement process. The court noted that allowing partial settlements would undermine the goal of uniform treatment of partnership items. It rejected the participants' argument that the regulation added impermissible restrictions, finding it consistent with the statute's purpose. The court also dismissed the participants' estoppel claim, stating there was no reasonable reliance on the IRS's provision of settlement information.

Practical Implications

This decision has significant implications for tax practitioners and partners in TEFRA proceedings. It clarifies that settlement agreements must clearly separate partnership and nonpartnership items to be eligible for consistent settlement under IRC sec. 6224(c)(2). Practitioners must ensure that settlement agreements are self-contained and comprehensive, using forms like the IRS's Form 870-L(AD) to delineate between partnership and nonpartnership items. The ruling reinforces the IRS's authority to regulate the settlement process to maintain uniformity and fairness. Subsequent cases, such as Olson v. United States, have utilized the separate parts of Form 870-L(AD) to comply with the regulation. This case also serves as a reminder to partners and their counsel to carefully consider the full scope of settlement agreements and the potential limitations on requesting consistent terms.

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