Krugman v. Commissioner, 112 T. C. 230 (1999)

The Tax Court's jurisdiction to review interest abatement requests under IRC § 6404 is limited to ministerial acts by the IRS after written notification to the taxpayer.

Summary

Eldon Harvey Krugman filed his 1985 tax return late in 1992 and entered into an installment agreement with the IRS in 1993. The IRS sent erroneous notices stating that Krugman's payments included interest, which they did not. After Krugman paid off the stated balance, the IRS demanded additional interest, leading Krugman to petition the Tax Court for abatement. The court held it lacked jurisdiction over Krugman's claims regarding penalties, wrongful levy, and refund offset, and ruled that the IRS did not abuse its discretion in denying interest abatement from 1986 to 1993, as § 6404 only applies post-notification.

Facts

Krugman filed his 1985 tax return on October 27, 1992, after reading about an IRS program for nonfilers. He reported owing $3,199 in tax. In April 1993, the IRS notified Krugman of a tax deficiency and penalty, but omitted interest. Krugman signed an installment agreement in July 1993 and made monthly payments as instructed by the IRS. From August 1993 to March 1995, the IRS sent 19 notices erroneously stating payments included interest and that the balance was being reduced to zero. On August 9, 1995, the IRS demanded $6,019. 10 in interest, which Krugman contested, leading to a levy on his bank account in 1997.

Procedural History

Krugman filed a claim for abatement of interest in April 1996, which the IRS partially disallowed in April 1997. Krugman then petitioned the Tax Court in 1997, challenging the IRS's refusal to abate interest, as well as alleging wrongful levy, improper penalties, and a right to offset. The IRS moved to dismiss for lack of jurisdiction over these additional claims.

Issue(s)

1. Whether the Tax Court has jurisdiction to decide Krugman's claims regarding wrongful levy, refund offset, and liabilities for additions to tax or penalties under IRC § 6404(g)?
2. Whether the IRS's denial of Krugman's request to abate interest that accrued before April 12, 1993, was an abuse of discretion?

Holding

1. No, because IRC § 6404(g) does not grant the Tax Court jurisdiction over claims of wrongful levy, refund offset, or liabilities for additions to tax or penalties.

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2. No, because the IRS did not abuse its discretion in denying interest abatement for the period from April 15, 1986, to April 11, 1993, as IRC § 6404(e) only applies after written notification to the taxpayer.

Court's Reasoning

The court applied IRC § 6404(g), which limits its jurisdiction to reviewing IRS decisions on interest abatement under § 6404(e). The court found that § 6404(g) does not extend to wrongful levy, refund offsets, or penalties, as these are not covered by the statute. For the interest abatement issue, the court cited the statutory language and legislative history of § 6404(e), which requires written notification before abatement can be considered. Since the IRS's first written notice to Krugman was in April 1993, the court held that interest before that date could not be abated under § 6404(e). The court noted the IRS's concession regarding abatement of interest from April 12, 1993, to August 9, 1995, due to erroneous notices.

Practical Implications

This decision clarifies the Tax Court's limited jurisdiction under IRC § 6404(g), impacting how taxpayers approach disputes over IRS levies, penalties, and interest. Practitioners must ensure they seek abatement of interest only after the IRS has provided written notification of a deficiency or payment. The ruling underscores the importance of accurate IRS notices and the potential consequences of errors in those communications. Future cases involving similar issues will need to adhere to this interpretation of § 6404, and taxpayers may need to pursue other remedies for claims outside the scope of this statute, such as wrongful levy or refund offsets.

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