Rhone-Poulenc Surfactants & Specialties, L. P. v. Commissioner, 114 T. C. 533 (2000)

The statute of limitations for assessing tax on partnership items is governed by both IRC sections 6501 and 6229, with section 6229 setting a minimum period and section 6501 potentially extending it.

Summary

Rhone-Poulenc Surfactants & Specialties, L. P. challenged the IRS's adjustments to their 1990 partnership tax return, arguing the statute of limitations had expired. The court clarified that IRC section 6229 sets a minimum three-year period for assessing tax on partnership items, while section 6501 could extend this to six years if a substantial income omission occurred. The IRS issued a Final Partnership Administrative Adjustment (FPAA) notice, which suspended the running of the statute of limitations, allowing for continued assessment. The court denied summary judgment, citing unresolved issues about the adequacy of income disclosure on Rhone-Poulenc's returns.

Facts

In 1990, Rhone-Poulenc and another subsidiary transferred business assets to a partnership, claiming it as a nontaxable exchange. The IRS issued a notice of Final Partnership Administrative Adjustment (FPAA) in 1997, treating the transfer as a taxable sale. Rhone-Poulenc filed a petition, arguing that the statute of limitations for assessing any tax from the partnership had expired. The IRS contended that Rhone-Poulenc omitted over 25% of gross income on its corporate return, justifying a six-year assessment period.

Procedural History

The IRS issued the FPAA on September 12, 1997. Rhone-Poulenc filed a petition challenging the adjustments. The Tax Court considered the motion for summary judgment based on the expiration of the statute of limitations, leading to the court's decision to deny summary judgment due to unresolved factual issues.

Issue(s)

1. Whether IRC section 6229(a) provides a minimum three-year statute of limitations for assessing tax attributable to partnership items, independent of section 6501.
2. Whether the issuance of an FPAA suspends the running of the statute of limitations under section 6501(e)(1)(A) when it might be extended to six years due to a substantial omission of income.
3. Whether Rhone-Poulenc adequately disclosed any omitted income on its corporate return to prevent the extension of the statute of limitations to six years.

Holding

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1. No, because section 6229(a) sets a minimum three-year period that does not preclude the applicability of a longer period under section 6501, such as the six-year period for substantial income omissions.
2. Yes, because the FPAA suspended the running of the six-year period under section 6501(e)(1)(A), as it was issued before the expiration of that period.
3. Undetermined, as the court found genuine issues of material fact regarding the adequacy of disclosure of the allegedly omitted income on Rhone-Poulenc's corporate return.

Court's Reasoning

The court interpreted IRC section 6229(a) as establishing a minimum three-year period for assessing tax on partnership items, which does not override the longer periods in section 6501. The court relied on the statutory language and legislative intent to support this view. The issuance of the FPAA was deemed to suspend the running of any open statute of limitations period under section 6501, allowing the IRS to continue the assessment process. The court also noted that statutes of limitations are strictly construed in favor of the government. The issue of adequate disclosure remained unresolved, leading to the denial of summary judgment.

Practical Implications

This decision clarifies that both IRC sections 6229 and 6501 are relevant to assessing tax on partnership items, with section 6229 setting a minimum period and section 6501 potentially extending it. Practitioners should be aware that the issuance of an FPAA can suspend the statute of limitations, allowing the IRS to continue assessments even after the initial three-year period has expired. The case also underscores the importance of adequate disclosure on tax returns to avoid extended assessment periods. Subsequent cases, such as *Bufferd v. Commissioner*, have further clarified the interplay between partnership and individual tax assessments.

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