Lincir v. Commissioner, 115 T. C. 293 (2000); 2000 U. S. Tax Ct. LEXIS 67; 115 T. C. No. 22

The U. S. Tax Court lacks jurisdiction in deficiency proceedings to determine the impact of interest-netting rules on the computation of statutory interest.

Summary

In Lincir v. Commissioner, the U. S. Tax Court addressed its jurisdiction over the computation of statutory interest and additions to tax. The Lincirs, involved in tax shelter programs, had underpayments for 1978-1982 and overpayments for 1984-1985. They sought to apply the interest-netting rule under section 6621(d) to offset their liabilities. The court held that it lacked jurisdiction in this deficiency proceeding to determine the impact of the interest-netting rule on section 6621(c) interest and that the addition to tax under section 6653(a)(2) was not ripe for consideration without a computed statutory interest assessment.

Facts

Tom I. Lincir and Diane C. Lincir participated in tax shelter programs, reporting tax losses for 1978-1982 and gains for 1984-1985. The IRS disallowed these losses, determining deficiencies and additions to tax for the earlier years, along with increased interest under section 6621(c). The Lincirs made a partial payment in 1990 and filed protective refund claims for 1984 and 1985. They sought to apply the interest-netting rule to offset their liabilities but were challenged on the court's jurisdiction to consider this in the deficiency proceeding.

Procedural History

The Lincirs filed a petition contesting the IRS's determinations. The case was linked to test cases regarding the tax shelter programs, leading to a trial on their liability for additions to tax and section 6621(c) interest. The Tax Court sustained the IRS's determinations in Lincir v. Commissioner, T. C. Memo 1999-98. The parties then disputed the terms of the decision, specifically the application of the interest-netting rule, leading to the supplemental opinion.

Issue(s)

1. Whether the Tax Court has jurisdiction in a deficiency proceeding to determine the impact of the interest-netting rule under section 6621(d) on the computation of section 6621(c) interest?
2. Whether the Tax Court can determine the impact of the interest-netting rule on the computation of the addition to tax under section 6653(a)(2) in the current proceeding?

Holding

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1. No, because the Tax Court’s jurisdiction in deficiency proceedings does not extend to determining statutory interest computations, including the application of the interest-netting rule to section 6621(c) interest.
2. No, because the computation of the addition to tax under section 6653(a)(2) is not ripe for consideration without an assessment of statutory interest under section 6601.

Court’s Reasoning

The court reasoned that its jurisdiction in deficiency proceedings is limited by statute, excluding the computation of statutory interest. Section 6621(c)(4) allows the court to determine the portion of a deficiency subject to increased interest but not how to compute that interest. The court cited established case law, including Bax v. Commissioner, to support its lack of jurisdiction over statutory interest in deficiency proceedings. For the addition to tax under section 6653(a)(2), the court found the issue not ripe as the IRS had not yet computed the statutory interest under section 6601, necessary for determining the addition to tax. The court emphasized that such disputes should be addressed in a supplemental proceeding under section 7481(c).

Practical Implications

This decision clarifies that taxpayers cannot use deficiency proceedings to challenge the IRS’s computation of statutory interest or the application of interest-netting rules. Practitioners must advise clients to address such disputes through section 7481(c) proceedings after the deficiency decision. The ruling underscores the need for precise timing in challenging interest computations, as taxpayers must wait for the IRS to assess statutory interest before contesting related additions to tax. This case may influence how taxpayers and their representatives strategize in dealing with tax shelter disputes and interest calculations, emphasizing the importance of understanding jurisdictional limits and procedural timing.

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