Blonien v. Commissioner, 118 T. C. 541 (U. S. Tax Court 2002)

In Blonien v. Commissioner, the U. S. Tax Court ruled that it lacked jurisdiction to consider Rodney Blonien's argument that he was not a partner in the insolvent law firm Finley Kumble. The court held that the determination of partnership status is a partnership item to be addressed at the partnership level, not in a partner-level deficiency proceeding. This decision upheld the tax deficiency notice issued to Blonien for his share of the firm's cancellation of debt income, emphasizing the procedural framework of the Tax Equity and Fiscal Responsibility Act (TEFRA) and its impact on the assessment of partnership-related tax liabilities.

Parties

Rodney J. Blonien and Noreen E. Blonien, petitioners, filed a case against the Commissioner of Internal Revenue, respondent, in the United States Tax Court. The petitioners sought to challenge the tax deficiency notice issued to them regarding their 1992 Federal income tax.

Facts

Rodney Blonien, an attorney, was approached by Finley Kumble, a law partnership, to join as a partner in December 1986. After negotiations, Blonien began working at Finley Kumble's Sacramento office in April 1987, receiving monthly draws and expecting to be a partner once formalities were completed. However, due to the firm's financial troubles, Blonien did not sign the partnership agreement and resigned in December 1987 when the firm announced its dissolution. Despite this, Blonien received a Schedule K-1 for 1992 from Finley Kumble indicating his distributive share of partnership items, including cancellation of debt (COD) income. Blonien reported a portion of this income on his 1992 tax return but later argued he was not a partner. The Commissioner issued an affected items notice of deficiency for 1992, attributing to Blonien his distributive share of Finley Kumble's COD income.

Procedural History

The Commissioner issued an affected items notice of deficiency to the petitioners on December 17, 1999, for a tax deficiency of $11,826 for the year 1992, stemming from Blonien's share of Finley Kumble's COD income. Petitioners filed a petition with the U. S. Tax Court, challenging the deficiency on the grounds that the period of limitations for assessment had expired and that Blonien was not a partner in Finley Kumble. The Tax Court held that it lacked jurisdiction to consider the argument regarding Blonien's partnership status, as it was a partnership item to be determined at the partnership level. The court also noted that it had jurisdiction to determine the effect of partnership items on the petitioners' tax liability at the partner level.

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Issue(s)

Whether the U. S. Tax Court has jurisdiction to consider Rodney Blonien's argument that he was not a partner in Finley Kumble in a partner-level deficiency proceeding?

Rule(s) of Law

Under the Tax Equity and Fiscal Responsibility Act (TEFRA), partnership items must be determined at the partnership level. Section 6231(a)(3) defines partnership items as those items that, by regulation, are more appropriately determined at the partnership level than at the partner level. The determination of who is a partner can affect the allocation of partnership items among other partners, making it a partnership item.

Holding

The U. S. Tax Court held that it lacked jurisdiction to consider Rodney Blonien's argument that he was not a partner in Finley Kumble, as this issue is a partnership item that must be challenged at the partnership level under TEFRA. The court affirmed that the period of limitations for assessment of the deficiency had not expired because it was governed by section 6229, not section 6501, due to the partnership-level determination of Blonien's status.

Reasoning

The Tax Court's reasoning centered on the jurisdiction established by TEFRA, which mandates that partnership items be determined at the partnership level. The court noted that the determination of partnership status could affect the allocation of partnership items among other partners, thus classifying it as a partnership item. The court also addressed the petitioners' due process concerns, finding that Blonien's prior returns and failure to notify the Commissioner of inconsistent treatment through Form 8082 estopped him from challenging his partnership status in the deficiency proceeding. The court emphasized that the duty of consistency prevents a taxpayer from taking one position on one tax return and a contrary position on a subsequent return after the limitations period has run for the earlier year. The court further noted that it retained jurisdiction to determine the effect of partnership items on the petitioners' tax liability at the partner level, which would be addressed through a Rule 155 computation.

Disposition

The court decided that a Rule 155 computation would be entered to determine the petitioners' tax liability based on the partnership items allocated to Blonien at the partnership level.

Significance/Impact

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Blonien v. Commissioner underscores the procedural framework of TEFRA and its impact on tax assessments related to partnerships. The decision clarifies that the determination of who is a partner is a partnership item, which must be addressed at the partnership level, not in a partner-level deficiency proceeding. This ruling reinforces the importance of the duty of consistency in tax law, preventing taxpayers from taking inconsistent positions across tax years. The case also highlights the jurisdictional limits of the Tax Court in handling partnership items, ensuring that partnership-level determinations are not revisited in individual deficiency proceedings. Subsequent cases have cited Blonien to affirm the principles established regarding partnership items and the Tax Court's jurisdiction under TEFRA.

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