Lewis v. Commissioner, 136 T. C. 35 (U. S. Tax Court 2011)

In Lewis v. Commissioner, the U. S. Tax Court clarified the scope of taxpayer challenges under section 6330(c)(2)(B) of the Internal Revenue Code. The court held that taxpayers can contest the entire assessed tax liability, including amounts reported on their returns, not just the amount specified in the IRS's final notice. This ruling expands taxpayer rights in collection due process hearings, allowing broader challenges to tax assessments beyond what is stated in the IRS's notices.

Parties

Petitioners: Lewis, et al. (Taxpayers challenging the tax assessment). Respondent: Commissioner of Internal Revenue (Defendant, representing the IRS).

Facts

Lewis and other taxpayers filed a petition in the U. S. Tax Court challenging a final notice of intent to levy issued by the IRS for the taxable year 2000. The taxpayers contested not only the $222,315. 34 amount specified in the notice but also claimed an overpayment of $519,087. The IRS argued that section 6330(c)(2)(B) did not allow the taxpayers to challenge the tax liability reported on their returns, which had been assessed under section 6201.

Procedural History

The taxpayers filed a petition in the U. S. Tax Court after receiving the IRS's final notice of intent to levy. The IRS moved for summary judgment, asserting that the taxpayers could not challenge the underlying tax liability reported on their returns. The Tax Court, in its majority opinion, denied the IRS's motion, interpreting section 6330(c)(2)(B) to allow such challenges. Chief Judge Wells concurred, emphasizing that the statutory language should govern over the interpretative regulation cited by the dissent.

Issue(s)

Whether section 6330(c)(2)(B) of the Internal Revenue Code permits a taxpayer to challenge in a lien and levy action the existence or amount of tax that the taxpayer previously reported due on their income tax return.

Rule(s) of Law

Section 6330(c)(2)(B) of the Internal Revenue Code states that a taxpayer may raise at a collection due process hearing "any relevant issue relating to the unpaid tax or the proposed levy. " The court also considered section 301. 6330-l(e) of the Procedure and Administration Regulations, which provides that a taxpayer may challenge the tax liability specified in a CDP Notice if the taxpayer did not receive a notice of deficiency or otherwise have an opportunity to dispute such liability.

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Holding

The U. S. Tax Court held that section 6330(c)(2)(B) permits taxpayers to challenge the entire assessed tax liability, including amounts reported on their returns, in a lien and levy action.

Reasoning

The court's reasoning focused on the plain language of section 6330(c)(2)(B), which does not limit challenges to the tax liability specified in the final notice but allows challenges to "any relevant issue relating to the unpaid tax. " Chief Judge Wells emphasized that the interpretative regulation cited by the dissent, section 301. 6330-l(e), was not dispositive because it merely restated the general rule and did not address the specific issue of challenging tax reported on returns. The court rejected the IRS's argument that Congress intended to limit challenges to only the amounts stated in the final notice, finding no such limitation in the statute. The court also noted that the parties did not rely on the regulation in their arguments, further supporting the conclusion that the statutory language should govern. The concurring opinion highlighted the importance of statutory construction over reliance on interpretative regulations when resolving the issue at hand.

Disposition

The U. S. Tax Court denied the IRS's motion for summary judgment, allowing the taxpayers to proceed with their challenge to the entire assessed tax liability for the taxable year 2000.

Significance/Impact

Lewis v. Commissioner expands the scope of taxpayer rights in collection due process hearings by allowing challenges to the entire assessed tax liability, not just the amount specified in the IRS's final notice. This ruling may lead to increased litigation as taxpayers seek to challenge broader aspects of their tax liabilities. It also underscores the importance of statutory language over interpretative regulations in determining the rights of taxpayers in tax disputes. The decision may influence future interpretations of section 6330(c)(2)(B) and similar provisions, potentially affecting IRS collection practices and taxpayer strategies in responding to tax assessments.

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