Meehan v. Comm'r, 122 T. C. 396 (2004)

In *Meehan v. Comm'r*, the U. S. Tax Court ruled that severance pay falls under the category of "salary or wages" for the purposes of a continuing wage levy. The case clarified that when a levy is initiated before the effective date of IRC section 6330, the court lacks jurisdiction to review subsequent levies on severance pay under that section, impacting the rights of taxpayers to challenge such levies through a Collection Due Process hearing.

Parties

Marty J. Meehan, the Petitioner, sought review of a determination by the Commissioner of Internal Revenue, the Respondent, concerning a continuing wage levy on his severance pay.

Facts

Marty J. Meehan failed to pay federal income taxes for the years 1988 through 1994, leading to the filing of Notices of Federal Tax Lien by the Respondent. In October 1997, a continuing wage levy was served on Meehan's employer, the City of Oswego. Meehan was aware of this levy. In December 2000, Meehan was laid off and offered severance pay of $17,116, based on his years of service, current wages, merit, and a waiver of any discrimination claim. Pursuant to the continuing wage levy, Meehan's employer remitted $10,068 of the severance pay to the Respondent, applied $3,048 to current payroll withholdings, and paid Meehan the remaining $4,000. Meehan challenged the levy of his severance pay, but the Appeals Office refused to consider this issue in a due process hearing related to his 1996, 1997, and 1999 tax liabilities.

Procedural History

Meehan filed a petition for review under IRC sections 6320(c) and 6330(d) following the Appeals Office's determination that sustained the notice of Federal tax lien filing but found his 1996, 1997, and 1999 tax liabilities not currently collectible through levy. The Appeals Office also determined that Meehan's challenge to the continuing wage levy was not relevant to the collection of the tax liabilities under consideration and thus not subject to review in the due process hearing. The case was submitted to the U. S. Tax Court fully stipulated under Rule 122.

Issue(s)

Whether the Tax Court has jurisdiction to review the Respondent's levy on Meehan's severance pay, which occurred after the effective date of IRC section 6330, under a continuing wage levy initiated before that date?

Rule(s) of Law

The court applied IRC section 6331(e), which provides for a continuing levy on

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“salary or wages. ” According to section 301. 6331-1(b)(1) of the Procedure and Administration Regulations, “salary or wages” includes compensation for services, such as fees, commissions, bonuses, and similar items. Additionally, IRC section 6330, effective from January 19, 1999, provides taxpayers with the right to an Appeals Office hearing before a levy. The applicable regulation, section 301. 6330-1(a)(4), Example (1), states that a continuing wage levy served before the effective date of section 6330 does not require a Collection Due Process (CDP) hearing for amounts collected after the effective date.

Holding

The Tax Court held that Meehan’s severance pay constitutes “salary or wages” within the meaning of IRC section 6331(e). As the continuing wage levy was initiated before the effective date of IRC section 6330, the court lacked jurisdiction to review the levy on Meehan’s severance pay.

Reasoning

The court’s reasoning was grounded in the interpretation of “salary or wages” under IRC section 6331(e). It noted that severance pay is a form of compensation for the termination of employment, calculated based on the employee’s salary and length of service. The court referenced its previous decisions and the treatment of severance pay as akin to salary or wages for tax withholding and other purposes. It also cited United States v. Jefferson-Pilot Life Ins. Co. , where the term “salary or wages” was broadly construed to include commissions. The court concluded that severance pay, despite being a one-time payment, should be included under the continuing wage levy due to its compensatory nature and the administrative ease it provides to the IRS. The court rejected Meehan’s argument that his severance pay was distinguishable due to the required waiver of discrimination claims, as such waivers are typical and the severance package was not shown to be specifically tied to the waiver.

Disposition

The court entered a decision for the Respondent, affirming that it lacked jurisdiction to review the levy on Meehan’s severance pay due to the pre-section 6330 initiation of the continuing wage levy.

Significance/Impact

The decision in *Meehan v. Comm’r* has significant implications for the treatment of severance pay under continuing wage levies. It clarifies that severance pay is subject to such levies and that pre-IRC section 6330 levies exclude subsequent levies on severance pay from the jurisdiction of the Tax Court for review under section 6330. This ruling limits the ability of taxpayers to challenge such levies through a Collection Due Process hearing if the levy was initiated before the

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effective date of section 6330. Subsequent cases and IRS practices have followed this interpretation, affecting how taxpayers and their representatives approach tax collection actions involving severance payments.

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