Orum v. Commissioner, 123 T. C. 1 (2004)

In Orum v. Commissioner, the U. S. Tax Court ruled it lacked jurisdiction over the 1998 tax year due to the Orums' failure to timely request a Collection Due Process (CDP) hearing following the IRS's initial notice of intent to levy. The court upheld the IRS's determination for the 1999 tax year, finding no abuse of discretion in rejecting the taxpayers' proposed installment agreement and offer-in-compromise. This decision clarifies the strict jurisdictional requirements for CDP hearings and the IRS's discretion in handling collection alternatives.

Parties

Keith and Cherie Orum (Petitioners) v. Commissioner of Internal Revenue (Respondent)

Facts

Keith and Cherie Orum, a married couple, filed joint federal income tax returns for 1998 and 1999 but did not fully pay their tax liabilities. On June 23, 2000, the IRS sent the Orums a Notice of Intent to Levy and Notice of Your Right to a Hearing for 1998 by certified mail. The Orums did not request a hearing in response to this notice. On December 14, 2001, after the termination of an intervening installment agreement, the IRS sent the Orums another Notice of Intent to Levy for both 1998 and 1999. The Orums requested a hearing for both years on December 31, 2001. In February 2002, they submitted an offer-in-compromise, which the IRS rejected based on the financial information provided. The IRS granted an equivalent hearing for 1998 and a CDP hearing for 1999, during which the Orums failed to provide requested additional financial information by the specified deadline. Consequently, the IRS issued a decision letter for 1998 and a notice of determination for 1999, both sustaining the proposed collection actions.

Procedural History

The Orums filed a petition with the U. S. Tax Court to dispute the decision letter for 1998 and the notice of determination for 1999. The Commissioner filed a motion to dismiss for lack of jurisdiction with respect to 1998. The Tax Court heard arguments on the motion and conducted a trial on the merits of the 1999 determination. The court applied a de novo standard of review for jurisdictional issues and an abuse of discretion standard for the determination regarding 1999.

Issue(s)

Whether the Tax Court lacks jurisdiction under 26 U. S. C. § 6330(d)(1) with regard to the 1998 tax year?

Whether there was an abuse of discretion in the determination that the proposed collection action for the 1999 tax year should be sustained?

Rule(s) of Law

26 U. S. C. § 6330(a)(2) requires the IRS to provide written notice of the right to a CDP hearing before levying on a taxpayer's property. Section 6330(a)(3)(B) stipulates that the taxpayer must request a CDP hearing within 30 days of the notice. If the taxpayer misses this deadline, they are not entitled to a CDP hearing but may receive an equivalent hearing. Section 6330(d)(1) grants the Tax Court jurisdiction over a levy action only if the taxpayer files a timely petition following the issuance of a notice of determination from a CDP hearing. The IRS may reject an offer-in-compromise if the taxpayer's financial information does not support a finding of doubt as to collectibility or promotion of effective tax administration, as per 26 C. F. R. § 301. 7122-1T(b).

Holding

The Tax Court held that it lacked jurisdiction over the 1998 tax year because the Orums did not request a CDP hearing within 30 days of the June 23, 2000, notice of intent to levy. The subsequent December 14, 2001, notice did not entitle the Orums to a CDP hearing for 1998. For the 1999 tax year, the court held that the IRS did not abuse its discretion in rejecting the Orums' proposed installment agreement and offer-in-compromise, and the proposed collection action was sustained.

Reasoning

The court's reasoning on the jurisdictional issue for 1998 focused on the strict statutory requirements of 26 U. S. C. § 6330. The court found that the June 23, 2000, notice was properly sent to the Orums' last known address, and their failure to request a hearing within 30 days precluded jurisdiction under § 6330(d)(1). The court rejected the Orums' argument that the December 14, 2001, notice entitled them to a CDP hearing, citing regulations that limit a taxpayer to one CDP hearing per tax period and that subsequent notices do not reset the 30-day window. The court distinguished this case from Craig v. Commissioner, where jurisdiction was upheld due to a timely, albeit unsigned, request for a hearing.

For the 1999 determination, the court applied the abuse of discretion standard. The IRS's rejection of another installment agreement was upheld because the Orums failed to provide requested financial information and had defaulted on a previous agreement. The court found that the IRS reasonably concluded from the Orums' financial information that they had the ability to pay their tax liabilities in full, thus justifying the rejection of the offer-in-compromise on grounds of doubt as to collectibility and effective tax administration. The court considered the IRS's analysis of the Orums' financial situation as well as policy considerations of efficient tax collection and the integrity of the tax system.

Disposition

The Tax Court granted the Commissioner's motion to dismiss for lack of jurisdiction with respect to 1998 and upheld the determination for 1999, sustaining the proposed collection action.

Significance/Impact

Orum v. Commissioner underscores the strict jurisdictional requirements for CDP hearings, emphasizing that taxpayers must adhere to the 30-day window following the initial notice of intent to levy to preserve their right to judicial review. The decision also reinforces the IRS's broad discretion in evaluating offers-in-compromise and installment agreements, highlighting the importance of timely and complete financial disclosure by taxpayers. Subsequent courts have cited Orum in addressing similar jurisdictional and discretion issues, impacting how taxpayers and practitioners approach CDP hearings and collection alternatives.

