Pixley v. Commissioner, 123 T. C. 269 (U. S. Tax Ct. 2004)

In Pixley v. Commissioner, the U. S. Tax Court ruled that tithing expenses cannot be considered in determining a taxpayer's ability to pay outstanding tax liabilities in an offer in compromise, unless the tithing is a condition of employment. The court upheld the IRS's decision to disallow tithing expenses for Bradley and Monica Pixley, finding no abuse of discretion. The ruling underscores the IRS's authority to set guidelines for compromise offers and emphasizes the government's interest in maintaining a uniform tax system, which supersedes any potential infringement on religious freedom.

Parties

Bradley M. and Monica Pixley, the petitioners, challenged the determination of the Commissioner of Internal Revenue, the respondent, regarding the disallowance of tithing expenses in their offer in compromise for unpaid tax liabilities from 1992 and 1993.

Facts

Bradley Pixley, an ordained Baptist minister, served as a pastor at Grace Community Bible Church in Tomball, Texas, from September 1995 to June 2001. After moving to California, he worked as an echocardiographer at Children's Hospital in Los Angeles. In October 2000, the IRS issued a notice of intent to levy against the Pixleys for their unpaid tax liabilities totaling $19,366. 69 for 1992 and $39,851. 27 for 1993. In response, the Pixleys submitted an offer in compromise, which included a monthly tithing expense of $520, claiming it as a necessary living expense. The IRS Appeals officer rejected this offer, disallowing the tithing expense due to lack of substantiation that it was a condition of Mr. Pixley's employment at the time of the offer in compromise.

Procedural History

The Pixleys requested a Collection Due Process (CDP) hearing following the IRS's notice of intent to levy. During the CDP hearing, they submitted an offer in compromise, which was rejected by the Appeals officer on March 14, 2002, for failing to substantiate that the tithing was a condition of employment. The Pixleys then filed a petition with the U. S. Tax Court for review of the Appeals Office determination. The Tax Court reviewed the case under the abuse of discretion standard, as the underlying tax liability was not at issue.

Issue(s)

Whether, in evaluating the Pixleys' offer in compromise, the IRS Appeals officer should have considered the Pixleys' tithing expenses in determining their ability to pay their outstanding tax liabilities?

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Whether the IRS's disallowance of tithing expenses for this purpose violates Mr. Pixley's First Amendment right to free exercise of religion?

Rule(s) of Law

Under 26 U. S. C. § 7122(a), the Commissioner is authorized to compromise a taxpayer's outstanding tax liabilities. Section 7122(c)(1) requires the Secretary to prescribe guidelines for determining whether an offer in compromise is adequate. The Internal Revenue Manual (IRM) provides that charitable contributions, including tithes, are necessary expenses if they provide for the taxpayer's health and welfare or are a condition of employment. However, the burden is on the taxpayer to substantiate such claims.

Holding

The U. S. Tax Court held that the IRS Appeals officer did not abuse his discretion in disallowing the Pixleys' tithing expenses in their offer in compromise, as the Pixleys failed to substantiate that the tithing was a condition of Mr. Pixley's employment at the time of the offer. Furthermore, the court held that the disallowance of tithing expenses did not violate Mr. Pixley's First Amendment right to free exercise of religion.

Reasoning

The court reasoned that the IRS's guidelines in the IRM allow for the inclusion of tithing expenses as necessary living expenses if they are a condition of employment. However, the Pixleys did not provide evidence that Mr. Pixley was employed as a minister at the time the offer in compromise was evaluated or that tithing was a condition of his employment. The court emphasized the importance of the taxpayer's burden to substantiate claims of necessary expenses. Regarding the First Amendment challenge, the court found that the disallowance of tithing expenses constituted a financial burden common to all taxpayers and did not impose a recognizable burden on the free exercise of religious beliefs. The court further noted that even if such a burden existed, it would be justified by the government's compelling interest in maintaining a sound tax system, as supported by precedents such as Hernandez v. Commissioner and United States v. Lee.

Disposition

The U. S. Tax Court sustained the IRS's determination to proceed with collection of the Pixleys' tax liabilities by levy, as the disallowance of tithing expenses in the offer in compromise was upheld.

Significance/Impact

Pixley v. Commissioner clarifies that tithing expenses are not automatically considered in determining a taxpayer's ability to pay in an offer in compromise

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unless they are substantiated as a condition of employment. The case reinforces the IRS's authority to set guidelines for compromise offers and underscores the government's interest in maintaining a uniform and effective tax system. It also highlights the limits of First Amendment protections in the context of tax obligations, affirming that financial burdens resulting from tax liabilities do not infringe upon the free exercise of religion. This ruling may affect how taxpayers structure their offers in compromise and how the IRS evaluates such offers, particularly when religious contributions are involved.

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