Kendricks v. Commissioner, 123 T. C. 24 (2004)

The U. S. Tax Court ruled that a prior bankruptcy proceeding provided taxpayers Juanita and Emmanuel Kendricks the opportunity to dispute their tax liabilities, thus precluding them from challenging these liabilities in a subsequent IRS collection due process hearing. This decision clarifies that a bankruptcy case where a taxpayer can object to the IRS's proof of claim constitutes an opportunity to dispute tax liabilities under IRS collection procedures, significantly impacting how taxpayers can contest their tax debts in future collection actions.

Parties

Petitioners: Juanita Kendricks and Emmanuel Kendricks. Respondent: Commissioner of Internal Revenue.

Facts

Juanita Kendricks received notices of deficiency for her 1982 through 1984 tax years, and she and Emmanuel Kendricks received a notice for their 1985 tax year. They did not petition the Tax Court in response to these notices, leading to assessments by the IRS. On September 13, 1996, the Kendricks filed for bankruptcy under Chapter 13, which was later converted to Chapter 11. In this bankruptcy case, they objected to the IRS's proof of claim but later stipulated to its dismissal without prejudice. Following the dismissal of their bankruptcy case on June 5, 2000, the IRS sent notices of intent to levy and notices of their right to a collection due process hearing on October 24, 2001. The Kendricks requested these hearings, asserting they had not had the chance to contest the underlying liabilities and that a levy would cause hardship. However, at the hearing, they were informed they could not challenge the liabilities due to prior opportunities to do so, and they did not pursue collection alternatives.

Procedural History

The IRS sent notices of deficiency to the Kendricks in 1995, which they did not challenge, resulting in assessments. They filed for bankruptcy in 1996, objecting to the IRS's proof of claim, but the case was dismissed in 2000 without resolving this objection. The IRS then sent notices of intent to levy in 2001, leading to collection due process hearings. The Appeals Office determined the IRS could proceed with levy actions. The Kendricks petitioned the Tax Court for review, and the Commissioner moved for summary judgment, which was granted by the Tax Court.

Issue(s)

Whether the Kendricks' opportunity to object to the IRS's proof of claim in their bankruptcy proceeding constitutes an opportunity to dispute the underlying tax liability, precluding them from challenging these liabilities in a subsequent collection due process hearing under section 6330(c)(2)(B) of the Internal Revenue

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Code?

Rule(s) of Law

Under section 6330(c)(2)(B) of the Internal Revenue Code, a taxpayer may contest the existence or amount of the underlying tax liability at a collection due process hearing if the taxpayer did not receive a statutory notice of deficiency or did not otherwise have an opportunity to dispute that liability. The Tax Court has jurisdiction to review determinations made by the Appeals Office under section 6330(d)(1)(A).

Holding

The Tax Court held that the Kendricks had the opportunity to dispute their tax liabilities during their bankruptcy proceeding, as they objected to the IRS's proof of claim, thus precluding them from challenging these liabilities in the collection due process hearing under section 6330(c)(2)(B).

Reasoning

The Tax Court reasoned that the bankruptcy proceeding provided the Kendricks the opportunity to dispute their tax liabilities. The court cited other judicial decisions that recognized a bankruptcy proceeding as an opportunity to dispute tax liabilities when the IRS submits a proof of claim. The Kendricks' objection to the IRS's proof of claim in bankruptcy, followed by their stipulation to dismiss this objection without prejudice, was deemed sufficient opportunity under section 6330(c)(2)(B). The court also rejected the Kendricks' argument that they lacked an adequate opportunity due to missing records, noting that they had 11 months for discovery and could have sought relief from the bankruptcy court. Furthermore, the court found no abuse of discretion by the Appeals Office in proceeding with the levy, as the Kendricks did not present collection alternatives or a valid offer in compromise during the collection due process hearing.

Disposition

The Tax Court granted the Commissioner's motion for summary judgment, affirming the Appeals Office's determination to proceed with the levy action against the Kendricks.

Significance/Impact

This case clarifies that a bankruptcy proceeding where a taxpayer can object to the IRS's proof of claim constitutes an opportunity to dispute tax liabilities under IRS collection procedures. This ruling impacts how taxpayers can contest their tax debts in future collection actions, emphasizing the importance of utilizing all available forums to dispute liabilities. It also underscores the limited scope of review in collection due process hearings when a prior opportunity to contest the liability has

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been provided, and highlights the necessity of presenting collection alternatives or offers in compromise during such hearings to avoid determinations of abuse of discretion.

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