***Goettee v. Commissioner, 124 T. C. 286 (U. S. Tax Court 2005)***

In Goettee v. Commissioner, the U. S. Tax Court ruled that taxpayers John G. Goettee, Jr. and Marian Goettee were not entitled to recover litigation costs in their dispute over interest abatements with the IRS. The court found that the Goettees did not 'substantially prevail' on the central issue of whether the IRS abused its discretion in denying their interest abatement claims. This decision underscores the stringent criteria for taxpayers to be considered 'prevailing parties' under the tax code, impacting how litigation costs are awarded in tax disputes.

**Parties**

John G. Goettee, Jr. and Marian Goettee (Petitioners) v. Commissioner of Internal Revenue (Respondent). The Goettees were taxpayers seeking to recover litigation costs following a dispute over interest abatements. The Commissioner represented the IRS in this case.

**Facts**

The Goettees claimed investment credits and losses arising from a partnership in which they held a limited interest. The IRS issued a notice of deficiency disallowing these claims, leading to a settlement where the Goettees paid the assessed deficiencies and additional charges. Subsequently, they sought abatement of interest on these amounts, which the IRS initially denied in full but later partially abated. The Goettees paid the remaining interest liabilities and then petitioned the U. S. Tax Court for review of the IRS's disallowance of further interest abatements. After IRS concessions, the court determined that the IRS abused its discretion only for a specific period from January 24 through April 24, 1995, but not for other periods. The Goettees moved for an award of litigation costs, which the court denied.

**Procedural History**

The Goettees initially filed a petition in the U. S. Tax Court seeking review of the IRS's denial of their request for interest abatement under Section 6404(h)(1) of the Internal Revenue Code. The case saw several stages of litigation, including motions for partial summary judgment and motions to dismiss. The court granted partial summary judgment to the IRS for one tax year and denied the Goettees' motion for reconsideration of the court's opinion. The case culminated in the court's decision on the Goettees' motion for litigation costs, applying the standard of review for determining the 'prevailing party' under Section 7430.

**Issue(s)**

Whether the Goettees were the 'prevailing party' under Section 7430 of the Internal Revenue Code, and thus entitled to an award of reasonable litigation costs, based on either:

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– Whether they substantially prevailed with respect to the most significant issue or set of issues presented, or

– Whether they substantially prevailed with respect to the amount in controversy.

**Rule(s) of Law**

Section 7430 of the Internal Revenue Code provides that a 'prevailing party' may be awarded reasonable litigation costs in tax proceedings. A 'prevailing party' is defined as one who has substantially prevailed with respect to either the most significant issue or set of issues presented or the amount in controversy, and meets the net worth requirements of 28 U. S. C. Section 2412(d)(1)(B). The United States can establish that its position was 'substantially justified' to deny such an award.

**Holding**

The U. S. Tax Court held that the Goettees were not the 'prevailing party' under Section 7430. They did not substantially prevail with respect to either the most significant issue or the amount in controversy. The court found that the Goettees' success in the litigation was minimal compared to their overall failure to achieve their requested relief, and thus they were not entitled to an award of litigation costs.

**Reasoning**

The court's reasoning focused on the Goettees' limited success in the litigation. They achieved some success on the issue of delay periods and some errors in interest computation, but these were considered trivial compared to their failures. The court noted that the Goettees prevailed on only a three-month period out of over fifteen months in dispute, and on only a few of the numerous errors claimed. The court emphasized that the Goettees' overall success was less than 5% of what they sought at trial. The court also considered the stipulation by both parties that the most significant issue was whether the IRS abused its discretion in denying interest abatement, and found that the Goettees did not substantially prevail on this issue. The court distinguished this case from others where taxpayers were deemed to have prevailed on significant issues, citing cases like Huckaby and Wilkerson, but found no similar pivotal issue in the Goettees' case. The court also noted that the requirements of Section 7430 are conjunctive, meaning the Goettees needed to meet all criteria to be awarded costs, which they did not.

**Disposition**

The U. S. Tax Court denied the Goettees' motion for an award of litigation costs and determined overpayments in accordance with the filed joint Rule 155 computations.

**Significance/Impact**

The Goettee case highlights the stringent criteria for taxpayers to be considered

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‘prevailing parties’ under Section 7430 of the Internal Revenue Code. It demonstrates the difficulty taxpayers face in recovering litigation costs, even when achieving some success in their claims. The decision reinforces the importance of substantial success in either the most significant issue or the amount in controversy for taxpayers to be eligible for litigation cost awards. This case may influence future litigation strategies and settlements in tax disputes, as it underscores the limited scope for recovering costs in cases where the taxpayer’s success is not significant relative to the overall litigation. Subsequent cases have cited Goettee to clarify the interpretation of ‘substantially prevailed’ in the context of tax litigation.

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