Estate of Roski v. Commissioner, 128 T. C. 280 (U. S. Tax Ct. 2007)

The U. S. Tax Court held that it has jurisdiction to review the IRS's denial of an estate's election to pay federal estate tax in installments under section 6166, and ruled that the IRS abused its discretion by mandating a bond or special lien for all such elections. This decision reaffirms judicial oversight over IRS discretion and supports the legislative intent to protect estates with closely held business interests from forced liquidation.

Parties

The petitioner is the Estate of Edward P. Roski (the estate), with Edward P. Roski, Jr. as the executor, appealing the determination of the Commissioner of Internal Revenue (respondent) at the U. S. Tax Court.

Facts

Edward P. Roski died on October 6, 2000, a resident of Los Angeles, California. The estate filed a timely Form 706 on January 4, 2002, reporting an estate tax liability and electing to pay the tax in installments under section 6166 of the Internal Revenue Code. The estate's assets primarily consisted of interests in a well-established family-owned business, managed by decedent's son, Edward P. Roski, Jr. The IRS notified the estate in September 2003 of the election and required either a bond or a special lien under section 6324A. The estate requested a waiver of these requirements, citing the prohibitive cost of a bond and the potential negative impact of a special lien on the business's operations. Despite these arguments, the IRS issued a notice of determination on December 28, 2004, denying the estate's section 6166 election due to the estate's failure to provide a bond or special lien.

Procedural History

The estate filed a petition for a declaratory judgment under section 7479 in the U. S. Tax Court on March 23, 2005, challenging the IRS's denial of the section 6166 election. The IRS moved for summary judgment, arguing that the Tax Court lacked jurisdiction to review the denial based on the estate's failure to provide security. The estate cross-moved for summary judgment, asserting that the IRS's requirement of a bond or special lien in every case was an abuse of discretion.

Issue(s)

1. Whether the U. S. Tax Court's jurisdiction under section 7479 includes reviewing the IRS's determination that an election may not be made under section 6166 when based on the estate's failure to provide a bond or special lien?
2. Whether the IRS abused its discretion by imposing a bright-line requirement of a bond or special lien for every estate election under section 6166(a)(1)?

Rule(s) of Law

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Section 6166 of the Internal Revenue Code allows an executor to elect to pay federal estate tax in installments where the estate consists largely of interests in a closely held business. Section 6165 provides that the IRS "may" require a bond when granting an extension of time to pay tax, indicating a discretionary power. Section 7479 grants the Tax Court jurisdiction to review IRS determinations regarding the eligibility for section 6166 elections. The court's review of agency action is governed by the standard that such action is unlawful if it is arbitrary, capricious, or an abuse of discretion.

Holding

The U. S. Tax Court held that it has jurisdiction under section 7479 to review the IRS's determination denying the estate's election under section 6166 based on the estate's failure to provide a bond or special lien. The court further held that the IRS abused its discretion by imposing a mandatory bond or special lien requirement for all section 6166 elections without exercising its discretion on a case-by-case basis.

Reasoning

The court reasoned that section 7479 authorizes judicial review of any determination by the IRS regarding an estate's eligibility for a section 6166 election, including those based on the provision of security. The court rejected the IRS's argument that its discretion to require a bond under section 6165 was unreviewable, citing precedent that the "committed to agency discretion" exception is narrow and does not preclude judicial oversight of arbitrary or capricious actions.

The court criticized the IRS's fluctuating positions on the bond requirement over the years, noting that less deference is owed to an agency's interpretation when it has been inconsistent. The court found that the IRS's imposition of a bright-line rule requiring security in every case without exercising discretion was contrary to the discretionary nature of section 6165 and the legislative intent behind section 6166 to protect estates with closely held businesses from forced liquidation.

The court emphasized that the IRS's failure to consider the specific facts of each case, such as the estate's financial stability and the nature of its business assets, constituted an abuse of discretion. The court highlighted the legislative history of section 6166, which aimed to alleviate liquidity problems faced by estates with closely held businesses, suggesting that a mandatory bond requirement would undermine this purpose.

The court also noted that the IRS's reliance on administrative convenience and revenue collection concerns, as mentioned in the TIGTA report, did not justify a blanket policy that precluded the exercise of discretion in individual cases.

Disposition

The U. S. Tax Court denied the IRS's motion for summary judgment and also denied the estate's cross-motion for summary judgment to the extent it sought a final disposition of the matter. The court found that the record lacked sufficient facts to

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decide the merits of the estate's assertion that furnishing security was not necessary in this case.

Significance/Impact

This decision reinforces the principle that IRS discretionary actions are subject to judicial review, particularly when such actions appear arbitrary or capricious. It clarifies that the IRS must exercise its discretion on a case-by-case basis when determining the necessity of a bond or special lien for section 6166 elections, rather than applying a blanket policy. The ruling supports the legislative intent behind section 6166 to protect estates with closely held businesses from forced liquidation, ensuring that such estates have access to judicial review without having to pay the full tax liability upfront. Subsequent courts and legal practitioners may cite this case when challenging IRS determinations that appear to overstep the agency's discretionary authority.

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