G-5 Inv. P'ship v. Comm'r, 128 T. C. 186 (U. S. Tax Court 2007)

In G-5 Inv. P'ship v. Comm'r, the U. S. Tax Court ruled that the statute of limitations under TEFRA does not bar the IRS from issuing a Final Partnership Administrative Adjustment (FPAA) for a partnership's tax year if the FPAA is issued within three years of the partners' filing of their individual tax returns for subsequent years. The court clarified that even though the partnership's tax year was closed, the IRS could still assess taxes against partners for open tax years affected by partnership item adjustments. This decision underscores the IRS's ability to adjust partnership items in closed years when they impact open partner tax years, ensuring comprehensive tax enforcement.

Parties

Plaintiffs (Petitioners): G-5 Investment Partnership, H. Miles Investments, LLC (Tax Matters Partner), Henry M. Greene, and Julie M. Greene (Partners other than the Tax Matters Partner). Defendant (Respondent): Commissioner of Internal Revenue.

Facts

G-5 Investment Partnership filed its 2000 partnership return on October 4, 2001. Henry M. Greene and Julie M. Greene were indirect partners in G-5, and H. Miles Investments, LLC, served as the tax matters partner (TMP). On April 12, 2006, the Commissioner of Internal Revenue issued a notice of final partnership administrative adjustment (FPAA) for the year 2000, more than three years after the filing of the partnership return and the partners' individual 2000 and 2001 Federal income tax returns, but within three years of the partners' filing of their individual 2002-2004 Federal income tax returns. The FPAA denied partnership losses claimed for 2000, which the partners had reported as capital loss carryovers on their individual tax returns for 2002-2004.

Procedural History

G-5 Investment Partnership and its partners filed a petition in the U. S. Tax Court pursuant to section 6226 of the Internal Revenue Code, challenging the FPAA. Petitioners moved for judgment on the pleadings, arguing that the period of limitations for assessing any tax resulting from the partnership proceeding had expired under sections 6229(a) and 6501(a) of the Internal Revenue Code. The Commissioner contended that the FPAA was timely issued within the three-year period from the filing of the partners' 2002-2004 individual returns, and thus, the period of limitations for assessing taxes attributable to partnership items for those years remained open.

Issue(s)

Whether the statute of limitations under sections 6229(a) and 6501(a) of the Internal Revenue Code precludes the Commissioner from issuing an FPAA and adjusting

© 2025 SCOTUSreports.com. All rights reserved.

partnership items for the year 2000 when the FPAA was issued more than three years after the filing of the partnership return but within three years of the filing of the partners' individual 2002-2004 tax returns?

Rule(s) of Law

Section 6501(a) of the Internal Revenue Code provides that the amount of any tax shall be assessed within three years from the date a taxpayer's return is filed. Section 6229 establishes the minimum period for the assessment of any tax attributable to partnership items, extending the section 6501 period of limitations with respect to the tax attributable to partnership items or affected items.

Holding

The U. S. Tax Court held that sections 6229(a) and 6501(a) of the Internal Revenue Code do not preclude the Commissioner from issuing the FPAA and adjusting partnership items for the year 2000. Furthermore, the court held that these sections do not bar the Commissioner from assessing a tax liability against the partners for the 2002-2004 tax years attributable to the carryforward of their distributive shares of partnership losses for 2000, even though the partnership item adjustments relate to transactions completed and reported in the closed year of 2000.

Reasoning

The court reasoned that the issuance of the FPAA was not barred by any period of limitations because it was issued within three years of the partners' filing of their individual 2002-2004 tax returns. The court emphasized that the TEFRA partnership provisions do not contain a period of limitations within which an FPAA must be issued, unlike the period applicable to large partnerships. The court distinguished between the general period of limitations for assessing any tax under section 6501 and the specific provisions of section 6229, which extend the period of limitations with respect to partnership items. The court noted that the IRS could assess a tax liability for open years (2002-2004) even though the underlying partnership item adjustments were attributable to transactions in a closed year (2000). The court relied on precedents that allow for the review of closed years in deficiency proceedings to adjust items impacting open years, extending this principle to TEFRA partnership proceedings. The court concluded that the Commissioner could assess a computational adjustment or determine a deficiency against the partners for the open years of 2002-2004, while conceding that the tax years 2000 and 2001 were closed to assessment.

Disposition

The U. S. Tax Court denied the petitioners' motion for judgment on the pleadings, allowing the Commissioner to proceed with assessing taxes attributable to partnership items for the partners' 2002-2004 taxable years.

© 2025 SCOTUSreports.com. All rights reserved.

Significance/Impact

The decision in G-5 Inv. P’ship v. Comm’r significantly impacts the application of the statute of limitations in TEFRA partnership proceedings. It clarifies that the IRS can issue an FPAA and adjust partnership items for a closed partnership year if the FPAA is issued within three years of the partners’ filing of their individual tax returns for subsequent years. This ruling expands the IRS’s ability to enforce tax liabilities arising from partnership items across multiple tax years, ensuring that adjustments in closed partnership years can still affect open partner tax years. The case reinforces the principle that the statute of limitations does not prevent the IRS from recomputing partnership items in closed years when those items impact the tax liability of partners in open years, thereby upholding the integrity of the tax system under TEFRA.

© 2025 SCOTUSreports.com. All rights reserved.