Murphy v. Commissioner, 129 T. C. 82 (U. S. Tax Ct. 2007)

The U. S. Tax Court ruled in favor of the IRS in *Murphy v. Commissioner*, affirming that the notice of final partnership administrative adjustment (FPAA) sent to Colin P. Murphy, an indirect partner through a trust, satisfied the statutory notice requirements under the Internal Revenue Code. The court clarified that the IRS could send the FPAA directly to an indirect partner if it possessed readily available information on the partner's identity and interest. This decision impacts how notices are delivered in partnership audits, particularly involving indirect partners.

Parties

Colin P. Murphy, as the Petitioner, challenged the Commissioner of Internal Revenue, as the Respondent, before the United States Tax Court. Throughout the litigation, Murphy was the sole beneficiary of an irrevocable trust and was considered the indirect partner of Ovation Trading Partners.

Facts

Colin P. Murphy was the sole beneficiary of the Collin Murphy Trust (CM Trust), which held a 13-percent interest in Ovation Trading Partners (Ovation), an Illinois general partnership. Ovation was formed on October 27, 2000, and liquidated on December 20, 2000. The CM Trust was established as an irrevocable trust for Murphy's benefit, with Kevin Murphy as the settlor and Michael Murphy and Lester Detterback as trustees. On August 31, 2001, Murphy filed his 2000 Federal income tax return, treating the CM Trust as a grantor trust and reporting its tax attributes as if they were realized directly by him. The CM Trust filed its 2000 Form 1041, identifying itself as a grantor trust and reporting its partnership interest in Ovation. Ovation's 2000 Form 1065 listed the CM Trust as a general partner with a 13-percent interest. The IRS mailed a notice of beginning of administrative proceeding (NBAP) and a notice of final partnership administrative adjustment (FPAA) for Ovation's 2000 taxable year to several parties at the Oak Brook address, including Murphy. The FPAA was returned unclaimed, and subsequently, the IRS mailed an affected items notice of deficiency to Murphy on October 11, 2005.

Procedural History

On January 9, 2006, Murphy petitioned the U. S. Tax Court to redetermine the IRS's determination of a $444,063 deficiency in his 2000 Federal income tax and a $177,625. 20 accuracy-related penalty. The IRS moved to dismiss the case for lack of jurisdiction over partnership items and the applicability of the accuracy-related penalty, which the court granted on November 1, 2006. The remaining issue was whether the FPAA sent to Murphy met the notice requirement under section 6223(a) of the Internal Revenue Code. The case was submitted fully stipulated under Rule 122 of the Tax Court Rules of Practice and Procedure.

Issue(s)

Whether the mailing of the FPAA to Colin P. Murphy, an indirect partner of Ovation Trading Partners through the Collin Murphy Trust, satisfied the notice requirement under section 6223(a) of the Internal Revenue Code?

Rule(s) of Law

The Internal Revenue Code, section 6223(a), mandates that the Commissioner notify certain partners of the beginning and end of a partnership audit. Section 6223(c)(3) specifies that the Commissioner must provide notice to an indirect partner, in lieu of a pass-thru partner, if the Commissioner has information about the indirect partner's name, address, and indirect profits interest. The term "pass-thru partner" is defined in section 6231(a)(9) to include a trust, and "indirect partner" in section 6231(a)(10) as a person holding an interest in a partnership through one or more pass-thru partners. Temporary regulations under section 301. 6223(c)-1T(f) further allow the IRS to use other readily available information in its possession when administering these provisions.

Holding

The U. S. Tax Court held that the mailing of the FPAA to Colin P. Murphy met the notice requirement of section 6223(a) by virtue of section 6223(c)(3). The court concluded that the IRS had sufficient readily available information to identify Murphy as an indirect partner of Ovation through the CM Trust, thus satisfying the statutory requirements for notice.

Reasoning

The court reasoned that the IRS possessed readily available information from Murphy's personal tax return, the CM Trust's trust return, and Ovation's partnership return, which collectively established Murphy's indirect profits interest in Ovation through the CM Trust. The court referenced section 6223(c)(3) and the temporary regulations, which allow the IRS to use such information to send notices directly to indirect partners. The court rejected Murphy's argument that the CM Trust was a complex trust and not a pass-thru partner, citing section 6231(a)(9)'s inclusive definition of a pass-thru partner. Additionally, the court noted that Murphy's own tax returns corroborated the CM Trust's status as a grantor trust, supporting the IRS's reliance on that information for mailing the FPAA. The court emphasized that the IRS was not required to search its records for additional information beyond what was readily available, as per the temporary regulations. The court also dismissed Murphy's attempt to argue on equitable grounds due to his young age, focusing solely on the legal issue presented by the parties' stipulation.

Disposition

The court entered a decision for the respondent, the Commissioner of Internal

Revenue, to the extent of the income tax deficiency, based on the stipulation that Murphy would concede the deficiency if the notice requirement was met.

Significance/Impact

The *Murphy v. Commissioner* decision clarifies the application of notice requirements in partnership audits involving indirect partners. It affirms that the IRS can send notices directly to indirect partners if it has readily available information about their identity and interest, streamlining the administrative process of partnership audits. This ruling has implications for tax planning and compliance for partnerships with complex ownership structures, particularly those involving trusts. It also underscores the importance of accurate and consistent reporting on tax returns, as such information can be relied upon by the IRS in determining notice recipients.

