Adkison v. Commissioner of Internal Revenue, 129 T. C. 97 (U. S. Tax Ct. 2007)

In Adkison v. Commissioner, the U. S. Tax Court ruled that it lacked jurisdiction to consider a claim for innocent spouse relief under Section 6015(c) in the context of an ongoing TEFRA partnership proceeding. Peter Adkison sought relief from joint tax liability linked to his participation in a tax shelter through Shavano Strategic Investment Fund, LLC. The court clarified that such claims can only be adjudicated after the completion of partnership-level proceedings and the issuance of a notice of computational adjustment, highlighting the procedural limitations within TEFRA partnership audits.

Parties

Petitioner: Peter D. Adkison, a taxpayer seeking relief from joint and several liability on a joint tax return for the year 1999.
Respondent: Commissioner of Internal Revenue, responsible for the administration and enforcement of the federal tax code.

Facts

Peter D. Adkison and his then-spouse, Cathleen S. Adkison, filed a joint federal income tax return for 1999, claiming deductions and losses from their involvement in Shavano Strategic Investment Fund, LLC (Shavano), which was part of a tax shelter known as Bond Linked Issue Premium Structure (BLIPS). Following their separation in December 1999 and subsequent divorce in 2001, Peter Adkison attempted to settle his tax liability with the IRS in 2004, which included a request for relief under Section 6015(c). After failed negotiations, he remitted $2. 5 million as a cash bond. In response to an IRS examination, the IRS issued a Notice of Final Partnership Administrative Adjustment (FPAA) to Shavano, leading to a partnership-level proceeding in the U. S. District Court for the Northern District of California. In November 2005, the IRS sent a joint notice of deficiency to Peter and Cathleen Adkison, asserting a deficiency of $5,837,482. Peter Adkison then filed a petition with the U. S. Tax Court seeking to redetermine the deficiency and assert his claim for innocent spouse relief under Section 6015(c).

Procedural History

Peter Adkison filed a petition with the U. S. Tax Court in response to the notice of deficiency issued by the Commissioner in November 2005. The petition sought both to redetermine the deficiency under Section 6213(a) and to assert a claim for relief from joint and several liability under Section 6015(c). In December 2006, the Commissioner moved to dismiss the case for lack of jurisdiction, arguing that the notice of deficiency was invalid because it pertained to partnership items still under review in the District Court. Adkison conceded that the notice was invalid for the deficiency claim but maintained that the court had jurisdiction over his Section

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6015(c) claim.

Issue(s)

Whether the U. S. Tax Court has jurisdiction to review a claim for relief under Section 6015(c) in the context of an ongoing TEFRA partnership proceeding where no notice of computational adjustment has been issued?

Rule(s) of Law

The Tax Court's jurisdiction is limited to that expressly granted by Congress. Under the TEFRA partnership provisions (Sections 6221-6234), partnership items are determined at the partnership level, and affected items, which depend on partnership items, can only be addressed after the partnership-level proceeding is final. Section 6230(a)(3) and Section 6230(c)(5) provide that a spouse of a partner may seek relief from joint and several liability under Section 6015 only after the Commissioner issues a notice of computational adjustment following the partnership-level proceeding.

Holding

The U. S. Tax Court held that it lacked jurisdiction to review Peter Adkison's claim for relief under Section 6015(c) because the claim could only be adjudicated after the completion of the partnership-level proceeding and the issuance of a notice of computational adjustment by the Commissioner.

Reasoning

The court reasoned that the Tax Court's jurisdiction is strictly limited by statute, and the TEFRA partnership provisions explicitly outline the procedure for addressing partnership items and affected items. The court noted that a notice of computational adjustment, which must follow the final decision in a partnership-level proceeding, is a prerequisite for a spouse to seek relief under Section 6015. The court distinguished between partnership items, determined at the partnership level, and affected items, which require partner-level determinations and can only be addressed after the partnership-level proceeding is complete. The court further clarified that the legislative intent behind Sections 6230(a)(3) and 6230(c)(5) was to ensure that claims for innocent spouse relief in the context of TEFRA partnership proceedings are adjudicated only after the partnership-level proceeding is finalized. The court also addressed the procedural posture of the case, noting that the notice of deficiency was invalid because it related to partnership items still under review in the District Court. The court concluded that without a valid notice of deficiency or a notice of computational adjustment, Adkison's claim for innocent spouse relief was premature.

Disposition

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The court granted the Commissioner’s motion to dismiss for lack of jurisdiction, as it lacked authority to review Adkison’s claim for relief under Section 6015(c) at that stage of the proceedings.

Significance/Impact

The Adkison decision clarifies the jurisdictional limits of the U. S. Tax Court in the context of TEFRA partnership proceedings and claims for innocent spouse relief. It underscores the procedural requirements under Sections 6230(a)(3) and 6230(c)(5) that such claims can only be adjudicated after the completion of partnership-level proceedings and the issuance of a notice of computational adjustment. This ruling is significant for taxpayers involved in TEFRA partnerships seeking relief from joint and several liability, as it establishes a clear sequence of procedural steps that must be followed. The decision also highlights the importance of the TEFRA partnership provisions in maintaining the integrity of partnership-level proceedings and ensuring that affected items are addressed appropriately. Subsequent cases have cited Adkison in discussions of jurisdiction and procedural requirements in TEFRA partnership cases, reinforcing its impact on tax practice and litigation.

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