Peter P. Baltic and Karen R. Baltic v. Commissioner of Internal Revenue, 129 T. C. 178, 2007 U. S. Tax Ct. LEXIS 38, 129 T. C. No. 19 (U. S. Tax Court 2007)

In Baltic v. Comm'r, the U. S. Tax Court ruled that taxpayers cannot challenge their underlying tax liability during a Collection Due Process (CDP) hearing if they previously received a notice of deficiency but failed to petition the court. The case clarified that an offer-in-compromise based solely on doubt as to liability constitutes such a challenge, which is barred by statute. This decision reinforces the IRS's ability to enforce collection actions without revisiting settled liability issues in CDP hearings, impacting how taxpayers approach tax disputes.

Parties

Petitioners: Peter P. Baltic and Karen R. Baltic. Respondent: Commissioner of Internal Revenue.

Facts

In February 2003, the Commissioner sent the Baltics a notice of deficiency asserting over $100,000 in income tax and penalties for the tax year 1999. The Baltics did not file a petition in the Tax Court to challenge the deficiency. Subsequently, the Commissioner assessed the tax and, in June 2004, sent the Baltics notices of federal tax lien filing and intent to levy under sections 6320 and 6330 of the Internal Revenue Code. The Baltics requested a CDP hearing, during which they submitted an offer-in-compromise based on doubt as to liability (OIC-DATL) for tax years 1997 through 2003, offering $18,699 to settle their entire tax liability for those years. They also submitted amended tax returns for 1997-1999 and 2003, and original returns for 2000-2002.

Procedural History

The Baltics received a notice of deficiency in February 2003 and did not file a petition in the Tax Court, leading to the Commissioner assessing the tax. After receiving notices of lien filing and intent to levy in June 2004, the Baltics requested a CDP hearing. The settlement officer conducted the hearing and issued a notice of determination sustaining the filing of the lien and postponing the levy, but refused to consider the OIC-DATL herself. The Baltics challenged this determination in the Tax Court, arguing that the settlement officer abused her discretion by not considering their OIC-DATL. The Commissioner moved for summary judgment, which was granted by the Tax Court.

Issue(s)

Whether an offer-in-compromise based solely on doubt as to liability (OIC-DATL) constitutes a challenge to the "underlying tax liability" under section 6330(c)(2)(B) of the Internal Revenue Code, thereby precluding its consideration during a CDP

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hearing when the taxpayer had previously received a notice of deficiency but did not challenge it in the Tax Court.

Rule(s) of Law

Section 6330(c)(2)(B) of the Internal Revenue Code allows a taxpayer to challenge the existence or amount of the underlying tax liability during a CDP hearing only if the taxpayer did not receive a statutory notice of deficiency or otherwise had no opportunity to dispute such tax liability. An OIC-DATL is considered a challenge to the underlying tax liability.

Holding

The Tax Court held that an OIC-DATL constitutes a challenge to the underlying tax liability under section 6330(c)(2)(B). Since the Baltics had received a notice of deficiency but did not challenge it in the Tax Court, they were barred from challenging their tax liability through an OIC-DATL during the CDP hearing.

Reasoning

The court reasoned that the term "liability" in section 6330(c)(2)(B) encompasses not only the amount of tax owed but also who owes it for a specific period. The Baltics' OIC-DATL was a challenge to the amount of their tax liability, which they could have contested by filing a petition in response to the notice of deficiency. The court distinguished the Baltics' case from others where taxpayers challenged their responsibility for the tax, not the amount, and emphasized that the Baltics had had their opportunity to challenge the tax liability. The court also rejected the Baltics' argument that the settlement officer should have waited for the IRS to review their OIC-DATL and amended return before issuing the notice of determination, citing the need for expeditious resolution of CDP hearings.

Disposition

The Tax Court granted the Commissioner's motion for summary judgment, affirming the settlement officer's notice of determination that sustained the filing of the lien and postponed the levy until the IRS decided on the OIC-DATL and completed the audit reconsideration.

Significance/Impact

The Baltic decision clarifies the scope of challenges allowed during CDP hearings, reinforcing that taxpayers cannot use such hearings to revisit their underlying tax liability if they had a prior opportunity to contest it. This ruling impacts tax practice by limiting the avenues for challenging tax liabilities post-assessment, emphasizing the importance of timely responses to notices of deficiency. It also affects IRS procedures, allowing the agency to more efficiently proceed with collection actions without revisiting settled liabilities in CDP hearings.

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