Knudsen v. Commissioner, T. C. Memo. 2007-340 (U. S. Tax Court 2007)

In Knudsen v. Commissioner, the U. S. Tax Court upheld its earlier decision that the petitioners' exotic animal breeding was not a profit-driven activity under Section 183. The court denied a motion for reconsideration, ruling that the burden of proof did not need to be shifted under Section 7491(a) since the preponderance of evidence already favored the Commissioner. This case underscores that burden shifting is only relevant in evidentiary ties, clarifying the application of Section 7491(a) in tax disputes.

Parties

The petitioners, referred to as Knudsen, filed a motion for reconsideration against the respondent, the Commissioner of Internal Revenue, in the U. S. Tax Court.

Facts

On December 19, 2007, the petitioners filed a motion for reconsideration following the Tax Court's Memorandum Opinion in Knudsen v. Commissioner (Knudsen I), which held that their exotic animal breeding activity was not engaged in for profit under Section 183. The petitioners sought reconsideration on the grounds that the burden of proof should have shifted to the respondent under Section 7491(a). They argued that each factor listed in Section 1. 183-2(b) of the Income Tax Regulations constituted a separate factual issue to which Section 7491(a) should apply.

Procedural History

In Knudsen I, the Tax Court held that the petitioners' exotic animal breeding was not an activity engaged in for profit under Section 183. The petitioners then filed a timely motion for reconsideration under Rule 161, requesting the court to reconsider the application of Section 7491(a). The Tax Court, exercising its discretion, denied the motion for reconsideration, maintaining its original decision that the burden of proof need not shift because the preponderance of evidence favored the Commissioner.

Issue(s)

Whether the Tax Court erred in declining to decide if the burden of proof should shift to the Commissioner under Section 7491(a) in the context of the petitioners' exotic animal breeding activity?

Whether each factor listed in Section 1. 183-2(b) of the Income Tax Regulations constitutes a separate factual issue to which Section 7491(a) should apply?

Rule(s) of Law

Section 7491(a)(1) of the Internal Revenue Code states that the burden of proof

© 2025 SCOTUSreports.com. All rights reserved.

shifts to the Commissioner with respect to factual issues relevant to ascertaining the taxpayer's tax liability if the taxpayer introduces credible evidence and satisfies the requirements of Section 7491(a)(2). Section 7491(a)(2) requires that the taxpayer maintain all required records and cooperate with reasonable requests by the Secretary. Rule 161 of the Tax Court Rules of Practice and Procedure allows for reconsideration to correct substantial errors of fact or law or to introduce newly discovered evidence.

Holding

The Tax Court held that it did not err in declining to decide whether the burden of proof should shift under Section 7491(a) because the preponderance of evidence favored the Commissioner, rendering the allocation of the burden of proof irrelevant. The court also held that it would not consider the petitioners' new argument that each factor under Section 1. 183-2(b) constitutes a separate factual issue to which Section 7491(a) applies, as this argument was raised for the first time in the motion for reconsideration.

Reasoning

The court's reasoning was rooted in the principle that the burden of proof shift under Section 7491(a) is relevant only in the event of an evidentiary tie. The court cited Blodgett v. Commissioner, where the Eighth Circuit clarified that a shift in the burden of proof has real significance only in the rare event of an evidentiary tie. Since the preponderance of evidence in Knudsen I favored the Commissioner, the court determined that the burden shift was not necessary to decide the case. The court also dismissed the petitioners' reliance on Griffin v. Commissioner, noting that Griffin II was distinguishable because it involved a situation where credible evidence was introduced by the taxpayers, which was not the case in Knudsen. Furthermore, the court refused to address the petitioners' new argument about the application of Section 7491(a) to each factor under Section 1. 183-2(b), as it was not raised during the trial or in the briefs, and reconsideration is not the appropriate forum for new legal theories. The court emphasized that even if it were to consider this argument, the result would remain unchanged because the petitioners did not introduce credible evidence on a factor-by-factor basis.

Disposition

The Tax Court denied the petitioners' motion for reconsideration and upheld its original decision in Knudsen I.

Significance/Impact

Knudsen v. Commissioner is significant for clarifying the application of Section 7491(a) in tax disputes, particularly in cases decided on the preponderance of evidence. The case reinforces that the burden of proof shift is only relevant when

© 2025 SCOTUSreports.com. All rights reserved.

there is an evidentiary tie, and it underscores the importance of raising all relevant arguments during the trial or in briefs rather than in motions for reconsideration. This decision impacts tax litigation by providing guidance on when and how the burden of proof might shift under Section 7491(a), and it has been cited in subsequent cases to support the position that the burden shift does not alter outcomes where the evidence clearly favors one party.

© 2025 SCOTUSreports.com. All rights reserved.