Medical Practice Solutions, LLC v. Commissioner of Internal Revenue, 132 T. C. 125 (U. S. Tax Court 2009)

In a significant ruling on LLC taxation, the U. S. Tax Court upheld the IRS's ability to collect employment taxes from the sole member of a single-member LLC under the 'check-the-box' regulations. This decision, affirming the regulations' validity, impacts how LLCs and their owners are treated for tax purposes, clarifying liability for employment taxes prior to 2009 changes.

Parties

Medical Practice Solutions, LLC, and Carolyn Britton, its sole member, were the petitioners. The respondent was the Commissioner of Internal Revenue. Throughout the litigation, Britton was identified as the sole member of the LLC.

Facts

Medical Practice Solutions, LLC, a single-member limited liability company registered in Massachusetts, was owned by Carolyn Britton during the relevant periods. Britton treated the LLC as her sole proprietorship for federal income tax purposes but did not elect corporate status. The LLC failed to pay employment taxes for the quarters ending March 31 and June 30, 2006, as reported on Forms 941 filed in the LLC's name. The IRS sent notices of intent to levy and notices of federal tax lien to Britton, addressing her as the sole member of the LLC.

Procedural History

After receiving the notices, Britton requested a hearing under IRC § 6330, which was conducted on April 23, 2007. The IRS issued a notice of determination on May 25, 2007, sustaining the proposed collection actions. Britton then petitioned the U. S. Tax Court, which corrected the caption to reflect the notice's address to the LLC and Britton as its sole member. The case was submitted fully stipulated, with the validity of the 'check-the-box' regulations being the central issue.

Issue(s)

Whether the 'check-the-box' regulations under 26 C. F. R. § 301. 7701-3(b), applicable to the periods in issue, were invalid in allowing the IRS to pursue collection of employment taxes against the sole member of a limited liability company?

Rule(s) of Law

Under 26 C. F. R. § 301. 7701-3(b), a domestic eligible entity with a single owner is disregarded as an entity separate from its owner unless it elects otherwise. This regulation applies to employment taxes related to wages paid before January 1, 2009. The regulation's validity was evaluated under the *Chevron U. S. A. , Inc. v.*

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Natural Res. Def. Council, Inc. standard for agency deference.

Holding

The U. S. Tax Court held that the 'check-the-box' regulations were valid, allowing the IRS to pursue collection against Britton as the sole member of Medical Practice Solutions, LLC, for the unpaid employment taxes. The court followed the precedents set by *Littriello v. United States* and *McNamee v. Dept. of the Treasury*.

Reasoning

The court's reasoning was based on the deference given to Treasury regulations under the *Chevron* standard. It noted that the regulations filled a gap in the tax code regarding the treatment of LLCs, allowing them to elect their classification for tax purposes. The court rejected arguments that the LLC's separate existence under state law should override the federal tax treatment and that subsequent amendments to the regulations reflected a change in policy. The court also distinguished cases cited by the petitioner as not directly relevant to the issue at hand. The court emphasized that the 'check-the-box' regulations provided a reasonable approach to the taxation of LLCs, allowing them to choose between corporate treatment with double taxation and disregarded entity status with direct liability for the owner.

Disposition

The court entered a decision in favor of the respondent, the Commissioner of Internal Revenue, affirming the notice of determination and allowing the IRS to proceed with collection against Britton.

Significance/Impact

This decision solidified the IRS's ability to enforce employment tax collection against sole members of LLCs under the pre-2009 'check-the-box' regulations. It affirmed the regulations' validity and their application in the context of employment taxes, providing clarity for taxpayers and practitioners. The ruling also highlighted the deference given to Treasury regulations in filling statutory gaps, impacting how LLCs and their members are treated for tax purposes. Subsequent changes to the regulations, effective from January 1, 2009, treating disregarded entities as corporations for employment tax purposes, were noted but did not affect the outcome of this case.

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