Samueli v. Commissioner of Internal Revenue, 132 T. C. 336 (U. S. Tax Court 2009)

In Samueli v. Comm'r, the U. S. Tax Court ruled that an amended individual income tax return did not qualify as a partner's administrative adjustment request (AAR) under TEFRA, despite claims of substantial compliance. The case underscores the strict procedural requirements for partners seeking to alter partnership items through AARs, affirming that such requests must adhere to specific IRS forms and instructions. This decision reinforces the necessity for precise compliance with tax procedures to ensure the proper treatment of partnership items, impacting how taxpayers navigate partnership tax adjustments.

Parties

Henry and Susan F. Samueli, Petitioners, filed against the Commissioner of Internal Revenue, Respondent, in the United States Tax Court. The case was identified as No. 13953-06.

Facts

Henry and Susan F. Samueli, residents of California, filed a joint Federal income tax return for 2003. They were involved with H&S Ventures, LLC, a limited liability company treated as a partnership for Federal tax purposes. Each owned 10 percent of H&S Ventures, with the remaining 80 percent owned by their grantor trust. In 2003, H&S Ventures filed a Form 1065, U. S. Return of Partnership Income. Subsequently, the Samuelis received amended Schedules K-1 from H&S Ventures, reflecting a reduction in their gross income and itemized deductions, which they believed were due to a calculation error discovered during a state examination. The Samuelis then filed an amended individual income tax return (Form 1040X) to reflect these changes and claimed a refund. However, they did not file a Form 8082, which is required for an administrative adjustment request (AAR) under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA).

Procedural History

The Commissioner of Internal Revenue issued a notice of deficiency to the Samuelis for the years 2001 and 2003, which did not include any adjustments from H&S Ventures' Form 1065. The Samuelis challenged the notice by filing a petition with the U. S. Tax Court, leading to a previous decision (Samueli v. Commissioner, 132 T. C. 37 (2009)). After receiving the amended Schedules K-1, they filed an amended return and a second amendment to their petition, claiming an overpayment for 2003. The Commissioner moved to dismiss part of the case for lack of jurisdiction, arguing that the amended return did not qualify as a partner AAR, thus the adjustments remained partnership items subject to TEFRA procedures.

Issue(s)

Whether an amended individual income tax return, filed without a Form 8082 and not following the specific requirements for an administrative adjustment request (AAR), qualifies as a partner AAR under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), thereby converting partnership items into nonpartnership items?

Rule(s) of Law

Under TEFRA, specifically 26 U. S. C. § 6227, partners can file an AAR to change the treatment of partnership items. The IRS has prescribed Form 8082 for this purpose, and the filing must comply with the form's instructions and IRS regulations at 26 C. F. R. § 301. 6227(d)-1(a), which require the AAR to be filed in duplicate, identify the partner and partnership, specify the partnership taxable year, relate only to partnership items, and pertain to one partnership and one taxable year. The substantial compliance doctrine may apply in certain cases, but it is a narrow equitable doctrine.

Holding

The U. S. Tax Court held that the Samuelis' amended return did not qualify as a partner AAR because it neither met the specific requirements for an AAR nor substantially complied with those requirements. Consequently, the adjustments remained partnership items, and the court lacked jurisdiction to decide their propriety in the deficiency proceeding.

Reasoning

The court's reasoning centered on the strict interpretation of TEFRA's requirements for filing an AAR. It emphasized that an AAR must be filed on Form 8082 and follow the prescribed instructions, including filing in duplicate and providing detailed explanations for the adjustments. The Samuelis' amended return failed to include a Form 8082, was not filed in duplicate, and did not list the partnership's address or specify the taxable year. Furthermore, it lacked a detailed explanation for the adjustments, which is necessary for the Commissioner to properly assess the request under § 6227(d). The court rejected the Samuelis' argument that their amended return should be treated as an AAR under the substantial compliance doctrine, finding no evidence of their intent to file the return as an AAR at the time of filing and noting that the return did not contain all required information or follow the necessary filing procedures. The court also referenced prior cases and IRS guidance, such as the Internal Revenue Manual, to support its conclusion that strict adherence to the prescribed procedures is necessary for an AAR to be valid.

Disposition

The U. S. Tax Court dismissed the part of the case related to the Samuelis' claim of overpayment for 2003 due to adjustments from H&S Ventures, affirming that it lacked jurisdiction over partnership items not converted into nonpartnership items through a valid AAR.

Significance/Impact

Samueli v. Comm’r reinforces the stringent requirements for partners seeking to adjust partnership items under TEFRA through an AAR. The decision clarifies that mere filing of an amended individual income tax return does not suffice as an AAR without strict compliance with IRS forms and instructions. This ruling underscores the importance of procedural precision in tax law, particularly in the context of partnership taxation, and serves as a cautionary precedent for taxpayers and practitioners. It may influence future cases by emphasizing the need for clear intent and adherence to specific procedures when filing AARs, potentially impacting how partnerships and their partners navigate tax adjustments and disputes.

