Cooper v. Commissioner, 136 T. C. 597 (U. S. Tax Ct. 2011)

In Cooper v. Commissioner, the U. S. Tax Court clarified its jurisdiction in whistleblower cases, ruling that it does not extend to initiating tax liability investigations. The court upheld the IRS's decision not to pursue action based on William Prentice Cooper's whistleblower claims, denying him an award under I. R. C. § 7623(b) because no tax proceeds were collected. This decision underscores the limitations of judicial oversight in whistleblower disputes and the necessity for actual tax collection to trigger an award.

Parties

William Prentice Cooper, III, as the petitioner, filed two claims for whistleblower awards with the Commissioner of Internal Revenue, the respondent. The case progressed through the U. S. Tax Court, where Cooper sought review of the Commissioner's denial of his claims.

Facts

William Prentice Cooper, III, an attorney from Nashville, Tennessee, submitted two whistleblower claims to the Internal Revenue Service (IRS) in 2008. The claims alleged substantial underpayments in federal estate and generation-skipping transfer taxes related to the estate of Dorothy Dillon Eweson, claiming an omission of a trust valued at over $102 million and the improper modification of trusts worth over $200 million. Cooper obtained this information while representing the guardian of a trust beneficiary and supported his claims with public records and client records. The IRS Whistleblower Office reviewed the claims and forwarded them to the appropriate IRS office, which concluded that no administrative or judicial action would be taken against the taxpayer involved. Consequently, the Whistleblower Office informed Cooper that no award determination could be made under I. R. C. § 7623(b) because his information did not lead to the detection of any tax underpayments.

Procedural History

Following the IRS's denial of his whistleblower claims, Cooper filed two petitions in the U. S. Tax Court. The Commissioner moved to dismiss for lack of jurisdiction, arguing that no award determination notices were issued. The court denied this motion, ruling that the Whistleblower Office's letters constituted determination notices (Cooper v. Commissioner, 135 T. C. 70 (2010)). The Commissioner then filed answers to the petitions, attaching a memorandum summarizing the rationale for denying the claims. Subsequently, the Commissioner moved for summary judgment, asserting that Cooper had not met the threshold requirements for a whistleblower award. Cooper objected, requesting a full re-evaluation of the facts and a new investigation into the tax liability.

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Issue(s)

Whether the U. S. Tax Court has jurisdiction to direct the IRS to initiate an administrative or judicial action to determine tax liability in a whistleblower case under I. R. C. § 7623(b)?

Whether the petitioner met the threshold requirements for a whistleblower award under I. R. C. § 7623(b)?

Rule(s) of Law

Under I. R. C. § 7623(b)(1), a whistleblower is entitled to an award equal to a percentage of the collected proceeds resulting from an administrative or judicial action initiated based on the whistleblower's information. The Tax Court's jurisdiction in whistleblower cases, as per I. R. C. § 7623(b), is limited to reviewing the Commissioner's award determination, not the underlying tax liability (Cooper v. Commissioner, 135 T. C. 70 (2010)).

Holding

The U. S. Tax Court held that it does not have jurisdiction to direct the IRS to open an administrative or judicial action to predetermine tax liability in whistleblower cases. Furthermore, the court found that Cooper failed to meet the threshold requirements for a whistleblower award under I. R. C. § 7623(b) because no tax proceeds were collected as a result of his information.

Reasoning

The court reasoned that the statutory framework of I. R. C. § 7623(b) clearly delineates the Tax Court's jurisdiction to review only the Commissioner's award determination, not to delve into the merits of the underlying tax liability. This limitation was emphasized by the court's earlier decision in Cooper v. Commissioner, 135 T. C. 70 (2010), which established that the court's role in whistleblower disputes is strictly to review the Commissioner's actions regarding awards. The court further noted that a whistleblower award is contingent upon the IRS's decision to pursue an administrative or judicial action and the subsequent collection of tax proceeds. Since no such action was initiated based on Cooper's claims, and no proceeds were collected, he was not entitled to an award. The court addressed Cooper's objections by clarifying that while he might disagree with the IRS's legal conclusions, the absence of an IRS action meant there could be no basis for a whistleblower award. The court's cautious approach to granting summary judgment was also noted, ensuring that all procedural and substantive requirements were met before deciding in favor of the Commissioner.

Disposition

The U. S. Tax Court granted the Commissioner's motions for summary judgment in

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both dockets, affirming the denial of whistleblower awards to Cooper.

Significance/Impact

Cooper v. Commissioner is significant for delineating the scope of the Tax Court's jurisdiction in whistleblower cases, emphasizing that it does not extend to directing the IRS to investigate potential tax liabilities. This ruling clarifies the threshold requirements for whistleblower awards under I. R. C. § 7623(b), reinforcing that an award is contingent upon the IRS taking action and collecting proceeds. The decision has implications for future whistleblower litigation, underscoring the necessity of actual tax collection for an award and the limited judicial oversight in such disputes. It also highlights the procedural and substantive hurdles whistleblowers must overcome to successfully claim an award, potentially impacting the incentives and strategies of potential whistleblowers.

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