Gaughf Properties, L. P. v. Comm'r, 139 T. C. 219 (2012)

In Gaughf Properties, L. P. v. Comm'r, the U. S. Tax Court held that the statutory period for assessing tax on partnership items remained open under I. R. C. § 6229(e) for indirect partners Andrew and Nan Gaughf due to their omission from the partnership return and inconsistent tax treatment. The decision underscores the importance of correctly identifying all partners on partnership returns to prevent indefinite extension of the assessment period.

Parties

Plaintiff: Gaughf Properties, L. P. , represented by Balazs Ventures, LLC, a partner other than the tax matters partner.

Defendant: Commissioner of Internal Revenue.

Facts

In 1999, Gaughf Properties, L. P. , was formed as a limited partnership under South Carolina law. The partnership was involved in a series of transactions intended to offset unrealized gains in stock owned by Andrew Gaughf. The transactions included currency options and stock trades, involving Gaughf Enterprises, LLC, Balazs Ventures, LLC, and Bodacious, Inc. , all owned either directly or indirectly by Andrew and Nan Gaughf. Gaughf Properties' 1999 tax return did not list Andrew and Nan Gaughf as partners, despite their indirect ownership through the other entities. The partnership return reported no taxable income, tax-exempt interest income of $66, and an ordinary loss of $45,000. The Gaughfs' personal tax return reported a long-term capital loss from Bodacious, Inc. , which was inconsistent with the partnership's treatment of the transactions. The IRS received information identifying the Gaughfs through a summons to Jenkens & Gilchrist, but this information was not formally furnished in accordance with IRS regulations.

Procedural History

The IRS issued a Notice of Final Partnership Administrative Adjustment (FPAA) to Gaughf Properties on March 30, 2007, concerning the tax year ended December 27, 1999. Gaughf Properties contested the FPAA, arguing that the statutory period for assessment had closed. The Tax Court separated the issue of the period of limitations for trial and opinion. The IRS conceded other arguments regarding the statutory period for assessment, focusing on I. R. C. § 6229(e).

Issue(s)

Whether the statutory period for assessing tax attributable to partnership items was still open under I. R. C. § 6229(e) with respect to Andrew and Nan Gaughf on March 30, 2007, the date the FPAA was issued?

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Rule(s) of Law

I. R. C. § 6229(e) provides that the period for assessing any tax imposed by subtitle A attributable to partnership items shall not expire with respect to a partner before the date which is 1 year after the date on which the name, address, and taxpayer identification number of such partner are furnished to the Secretary if: (1) the name, address, and taxpayer identification number of a partner are not furnished on the partnership return, and (2) the partner has failed to comply with I. R. C. § 6222(b) regarding notification of inconsistent treatment of partnership items.

Holding

The Tax Court held that the statutory period for assessing tax attributable to partnership items remained open under I. R. C. § 6229(e) with respect to Andrew and Nan Gaughf on March 30, 2007, because their names, addresses, and taxpayer identification numbers were not furnished on the partnership return, and they failed to comply with I. R. C. § 6222(b) by not notifying the IRS of their inconsistent treatment of partnership items on their personal tax return.

Reasoning

The court reasoned that the Gaughfs were indirect partners in Gaughf Properties, and their identifying information was not included on the partnership return, satisfying the first condition of I. R. C. § 6229(e). The court found that the Gaughfs treated partnership items inconsistently with the partnership return by reporting a capital loss on their personal return that was not accounted for on the partnership return, thus failing to comply with I. R. C. § 6222(b). The court also determined that the information received by the IRS from Jenkens & Gilchrist did not meet the requirements of Treas. Reg. § 301. 6223(c)-1T for furnishing information, as it was not filed with the correct IRS office and did not contain a statement explaining that it was furnished to correct or supplement earlier information. The court rejected the taxpayer’s arguments that the IRS should have been estopped from asserting that the statutory period for assessment was open, finding no basis for estoppel.

Disposition

The Tax Court issued an order reflecting that the statutory period for assessing tax attributable to partnership items was open under I. R. C. § 6229(e) with respect to Andrew and Nan Gaughf on the date the FPAA was issued.

Significance/Impact

This case underscores the importance of accurately reporting all partners, including indirect partners, on partnership returns to avoid the indefinite extension of the statutory period for assessment under I. R. C. § 6229(e). It also highlights the necessity for partners to comply with I. R. C. § 6222(b) by notifying the IRS of any inconsistent treatment of partnership items on their personal tax returns. The

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decision reinforces the IRS's authority to extend the assessment period when partners are not properly identified and emphasizes the strict requirements for furnishing information to the IRS to trigger the running of the one-year period under I. R. C. § 6229(e).

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