George Thompson v. Commissioner of Internal Revenue, 140 T. C. No. 4 (2013)

In George Thompson v. Commissioner, the U. S. Tax Court upheld the IRS's decision to classify tithing and college expenses as conditional, not necessary, in determining a partial payment installment agreement. The court found no abuse of discretion or violation of religious freedom laws, reinforcing the IRS's authority to collect taxes efficiently while allowing only necessary expenses in such agreements.

Parties

George Thompson, the petitioner, filed a petition for review against the Commissioner of Internal Revenue, the respondent, in the U. S. Tax Court. Thompson sought a partial payment installment agreement for his tax liabilities and penalties, while the Commissioner assessed and sought collection of these liabilities.

Facts

George Thompson, a member of the Church of Jesus Christ of Latter-Day Saints, had unpaid tax liabilities including trust fund recovery penalties under I. R. C. sec. 6672 and income tax liabilities for multiple periods. Thompson requested a partial payment installment agreement, proposing a monthly payment of $3,000, which included tithing to his church and college expenses for his children. The IRS settlement officer calculated Thompson's ability to pay based on the Internal Revenue Manual, classifying tithing and college expenses as conditional rather than necessary expenses.

Procedural History

Thompson received notices of intent to levy and notices of federal tax lien filing, leading him to request a collection due process (CDP) hearing. During the CDP hearing, Thompson contested the classification of his tithing and college expenses as conditional expenses. The settlement officer offered a partial payment installment agreement with a higher monthly payment than Thompson proposed. Thompson petitioned the U. S. Tax Court, which reviewed the case for abuse of discretion by the settlement officer.

Issue(s)

Whether the classification of Thompson's tithing as a conditional expense under the Internal Revenue Manual was an abuse of discretion?

Whether classifying Thompson's tithing as a conditional expense violated his rights under the Free Exercise Clause of the First Amendment?

Whether classifying Thompson's tithing as a conditional expense violated the Religious Freedom Restoration Act of 1993?

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Whether the classification of Thompson's children's college expenses as conditional expenses under the Internal Revenue Manual was an abuse of discretion?

Rule(s) of Law

The Internal Revenue Manual (IRM) provides guidelines for determining a taxpayer's ability to pay in a partial payment installment agreement, categorizing expenses into necessary and conditional. Necessary expenses must meet the "necessary expense test," which requires the expense to provide for the taxpayer's health and welfare or production of income. Conditional expenses, including tithing and college expenses, are not allowed in partial payment installment agreements.

The Free Exercise Clause of the First Amendment prohibits the government from interfering in a church's selection of its ministers but does not exempt taxpayers from tax obligations due to religious beliefs.

The Religious Freedom Restoration Act (RFRA) prohibits the government from substantially burdening a person's exercise of religion unless it furthers a compelling government interest through the least restrictive means.

Holding

The U. S. Tax Court held that the settlement officer did not abuse her discretion by classifying Thompson's tithing as a conditional expense under the Internal Revenue Manual. The court also held that this classification did not violate Thompson's rights under the Free Exercise Clause or the RFRA. Similarly, the court upheld the classification of Thompson's children's college expenses as conditional expenses, finding no abuse of discretion.

Reasoning

The court reasoned that Thompson's tithing did not meet the necessary expense test because it was not for the production of income and did not provide for his health and welfare. The court interpreted the term "employment" in the Internal Revenue Manual to mean compensated employment, thus rejecting Thompson's argument that his uncompensated church positions qualified as employment.

Regarding the Free Exercise Clause, the court found that the settlement officer's decision did not interfere with the church's selection of its ministers, as the church, not the IRS, required Thompson to resign his positions if he did not tithe. The court also emphasized that paying taxes is a common burden and does not violate the Free Exercise Clause.

Under the RFRA, the court acknowledged the government's compelling interest in collecting taxes efficiently. It found that allowing Thompson's proposed partial payment installment agreement would not further this interest, as it would delay tax collection. The court concluded that the settlement officer's decision was the least

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restrictive means to further the government's interest.

The court upheld the classification of college expenses as conditional, noting that the Internal Revenue Manual specifically addresses college expenses and requires that the taxpayer be able to pay the liability within five years for these expenses to be considered necessary.

Disposition

The U. S. Tax Court sustained the IRS's determination to proceed with collection action, affirming the settlement officer's decision to classify Thompson's tithing and college expenses as conditional expenses in the partial payment installment agreement.

Significance/Impact

This case reinforces the IRS's authority to classify expenses as necessary or conditional in determining partial payment installment agreements. It clarifies that tithing and college expenses are generally not considered necessary expenses under the Internal Revenue Manual. The decision also upholds the government's compelling interest in efficient tax collection, even when religious freedom claims are involved, and provides guidance on the application of the RFRA in tax collection contexts. The case may influence future IRS decisions on similar issues and underscores the balance between religious freedom and tax obligations.

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