Kraft v. Commissioner, 142 T. C. 259 (2014)

In Kraft v. Commissioner, the U. S. Tax Court upheld the IRS's decision to proceed with a levy against Bruce Kraft for his 2009 tax liability, rejecting his request to collect from his spendthrift trust instead. The court ruled that the IRS did not abuse its discretion by not invading the trust first, as it was not required to collect from a specific asset to satisfy the taxpayer's debt. This decision clarifies that the IRS has broad discretion in choosing which assets to levy upon, emphasizing the efficiency of tax collection over taxpayer preferences.

Parties

Bruce M. Kraft, the petitioner, filed a case against the Commissioner of Internal Revenue, the respondent, in the United States Tax Court. Throughout the litigation, Kraft was represented by various counsel, including Kenneth A. Burns, William D. Hartsock, and Sherry L. McDonald, while Whitney N. Moore represented the Commissioner.

Facts

Bruce M. Kraft, a resident of Washington, D. C. , filed his 2009 Federal income tax return late on December 28, 2010, reporting a tax liability of $141,045. He made partial payments totaling $80,500 by March 14, 2011, but the liability grew due to additions to tax, penalties, and interest. On May 24, 2011, the IRS issued a Final Notice of Intent to Levy and Notice of Your Right to a Hearing for the 2009 tax year, reflecting a balance due of $150,125 as of June 23, 2011. Kraft timely requested a Collection Due Process (CDP) hearing, proposing that the IRS levy on assets of the Bruce Kraft Discretionary Trust UTD 1999 (Kraft Trust), an irrevocable spendthrift trust governed by District of Columbia law, instead of his personal income distributions. During the CDP hearing, Kraft did not contest the underlying tax liability but focused on the collection method.

Procedural History

Following the CDP hearing, the Appeals Office issued a Notice of Determination on January 11, 2012, sustaining the proposed levy. Kraft petitioned the U. S. Tax Court for review on February 7, 2012. The Commissioner moved for summary judgment on October 21, 2013, which was heard on December 9, 2013. The court directed the parties to brief whether the IRS was required to invade the Kraft Trust before levying on Kraft's personal assets. After considering the briefs submitted by February 10, 2014, the court granted the Commissioner's motion for summary judgment on April 23, 2014, finding no abuse of discretion in the IRS's decision to proceed with the levy.

Issue(s)

Whether the IRS abused its discretion by not determining to invade the Kraft Trust

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to satisfy Kraft's 2009 tax liability instead of proceeding with a levy on Kraft's personal assets?

Rule(s) of Law

Under I. R. C. sec. 6330, the IRS must provide taxpayers with a hearing before proceeding with a levy, during which the taxpayer may raise relevant issues, including collection alternatives. The IRS has broad authority to levy upon any property or rights to property belonging to the taxpayer under I. R. C. sec. 6331(a). The Appeals officer must balance the need for efficient tax collection with the taxpayer's concern that any collection action be no more intrusive than necessary, as per I. R. C. sec. 6330(c)(3)(C). Additionally, under District of Columbia law, a creditor or assignee of the settlor may reach the maximum amount that can be distributed to or for the settlor's benefit from an irrevocable trust, even if it has a spendthrift provision, as outlined in D. C. Code sec. 19-1305. 05(a)(2).

Holding

The U. S. Tax Court held that the IRS did not abuse its discretion by not determining to invade the Kraft Trust in order to satisfy Kraft's 2009 tax liability. The court affirmed that the IRS was not required to collect involuntary payments from a specific source, such as the Kraft Trust, and could proceed with a levy on Kraft's personal assets.

Reasoning

The court reasoned that the IRS's decision to levy on Kraft's personal assets was within its discretion, as it had the authority to levy upon any property belonging to the taxpayer. The court emphasized that the IRS was not obligated to specifically levy on the Kraft Trust, despite Kraft's preference, and that a thorough investigation into the trust's assets would be required before such a levy could be considered, which had not been conducted. The court also noted that even if the IRS were to levy on the trust, potential opposition from the trustees could lead to further litigation and delay. The court found that the Appeals officer appropriately balanced the need for efficient tax collection with Kraft's concern that the collection action be no more intrusive than necessary, as required by I. R. C. sec. 6330(c)(3)(C). The court's decision was supported by the principle that a settlor-beneficiary's creditors can reach the maximum amount that can be distributed from an irrevocable trust under District of Columbia law, as per D. C. Code sec. 19-1305. 05(a)(2). The court concluded that the IRS's choice of collection method was not an abuse of discretion and granted the Commissioner's motion for summary judgment.

Disposition

The U. S. Tax Court granted the Commissioner's motion for summary judgment, affirming the IRS's decision to proceed with a levy on Kraft's personal assets to

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satisfy his 2009 tax liability.

Significance/Impact

Kraft v. Commissioner reinforces the broad discretion the IRS has in selecting assets for levy to satisfy tax liabilities, highlighting that taxpayers cannot dictate which assets the IRS must target. This decision underscores the IRS's authority under I. R. C. sec. 6331(a) to choose any property or rights to property belonging to the taxpayer for collection purposes. The case also clarifies the application of state law regarding spendthrift trusts in the context of IRS collection actions, affirming that creditors, including the IRS, can reach assets in such trusts under certain conditions. This ruling may influence future cases involving collection alternatives and the IRS's discretion in choosing levy targets, emphasizing the importance of balancing efficient tax collection with the least intrusive method for taxpayers.

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