

Bedrosian v. Commissioner, 143 T. C. 83 (U. S. Tax Court 2014)

In *Bedrosian v. Commissioner*, the U. S. Tax Court ruled that it lacked jurisdiction over partnership items from a notice of deficiency due to the IRS's mishandling of TEFRA procedures. The court clarified that the IRS's use of both TEFRA and deficiency procedures was invalid for partnership items because the IRS had initially determined the case was not subject to TEFRA, but later issued a TEFRA notice. This decision underscores the importance of adhering to the correct procedural framework when auditing partnerships, affecting how future cases involving similar procedural issues may be approached.

Parties

John C. Bedrosian and Judith D. Bedrosian (Petitioners) v. Commissioner of Internal Revenue (Respondent). The Bedrosians were the taxpayers at the trial level and appellants at the appellate level, while the Commissioner was the respondent at both stages.

Facts

John C. Bedrosian and Judith D. Bedrosian invested in a Son-of-BOSS transaction through a partnership named Stone Canyon Partners. The partnership was subject to the Tax Equity and Fiscal Responsibility Act (TEFRA) procedures due to the presence of passthrough partners. The IRS initially audited the Bedrosians' individual tax returns for 1999 and 2000, soliciting extensions of the statute of limitations and discussing potential settlements without following TEFRA procedures. Later, the IRS issued a notice of beginning of administrative proceeding (NBAP) and a final partnership administrative adjustment (FPAA) for Stone Canyon Partners, but also issued a notice of deficiency to the Bedrosians, which included the same adjustments as the FPAA plus additional adjustments. The Bedrosians filed a timely petition challenging the notice of deficiency but an untimely petition challenging the FPAA.

Procedural History

The IRS issued a notice of deficiency to the Bedrosians on April 19, 2005, and an FPAA to Stone Canyon Partners on April 8, 2005. The Bedrosians timely filed a petition in response to the notice of deficiency on July 5, 2005. The Tax Court dismissed the case for lack of jurisdiction over partnership items included in the notice of deficiency, retaining jurisdiction over nonpartnership items. The Bedrosians also filed an untimely petition in response to the FPAA, which the Tax Court dismissed for lack of jurisdiction due to the late filing. The Court of Appeals for the Ninth Circuit affirmed the Tax Court's dismissals and held that the notice of deficiency was invalid as to partnership items. The case returned to the Tax Court, where the Bedrosians moved for summary judgment, arguing that the court had jurisdiction over all items in the notice of deficiency due to the IRS's procedural

errors.

Issue(s)

Whether the partnership items converted to nonpartnership items under section 6223(e)(2) because the TEFRA proceeding was ongoing at the time the IRS mailed the FPAA?

Whether the partnership items converted to nonpartnership items under section 6223(e)(3) because filing a petition with respect to a notice of deficiency constituted substantial compliance with procedures for opting out of a TEFRA proceeding?

Whether the Secretary reasonably determined under section 6231(g)(2) that TEFRA did not apply to the partnership?

Whether the Tax Court was bound by the Court of Appeals for the Ninth Circuit's prior holding that it lacked jurisdiction over the partnership items in the notice of deficiency?

Rule(s) of Law

Section 6223(e)(2) provides that partnership items automatically convert to nonpartnership items if the TEFRA proceeding has concluded at the time the IRS mails notice to the taxpayer. Section 6223(e)(3) allows a partner to elect to have partnership items converted to nonpartnership items if the TEFRA proceeding is ongoing at the time the IRS mails notice to the taxpayer. Section 6231(g)(2) provides that TEFRA procedures do not apply if the Secretary reasonably determines, on the basis of the partnership's return, that TEFRA does not apply, even if that determination is erroneous.

Holding

The Tax Court held that the partnership items did not convert to nonpartnership items under section 6223(e)(2) because the TEFRA proceeding was ongoing at the time the IRS mailed the FPAA. The court also held that the partnership items did not convert to nonpartnership items under section 6223(e)(3) because filing a petition with respect to a notice of deficiency was not substantial compliance with procedures for opting out of a TEFRA proceeding. Additionally, the court held that the Secretary did not reasonably determine under section 6231(g)(2) that TEFRA did not apply to the partnership. Finally, the court held that it was bound by the Court of Appeals for the Ninth Circuit's prior holding that it lacked jurisdiction over the partnership items in the notice of deficiency.

Reasoning

The Tax Court reasoned that section 6223(e)(2) did not apply because the TEFRA proceeding was ongoing when the IRS mailed the FPAA. The court rejected the Bedrosians' argument that the expiration of the statute of limitations should be considered a conclusion of the TEFRA proceeding. Regarding section 6223(e)(3), the

court found that the Bedrosians did not make a timely election to opt out of the TEFRA proceeding and did not substantially comply with the election procedures. The court also found that the IRS did not reasonably determine under section 6231(g)(2) that TEFRA did not apply to the partnership because the partnership's return clearly indicated the presence of passthrough partners, making the partnership subject to TEFRA. The court concluded that it was bound by the Court of Appeals for the Ninth Circuit's prior holding, which precluded reconsideration of the jurisdiction issue.

Disposition

The Tax Court denied the Bedrosians' motion for summary judgment and upheld its prior decision that it lacked jurisdiction over the partnership items in the notice of deficiency.

Significance/Impact

The decision in *Bedrosian v. Commissioner* clarifies the application of TEFRA procedures and the consequences of the IRS's failure to follow those procedures correctly. It underscores the importance of adhering to the proper procedural framework when auditing partnerships and the potential jurisdictional consequences of failing to do so. The case also highlights the limitations of the Tax Court's jurisdiction over partnership items when TEFRA procedures are involved and the impact of appellate court decisions on subsequent proceedings in the same case. The decision may influence how the IRS approaches audits of partnerships and how taxpayers respond to notices issued under different procedural frameworks.