RSW Enterprises, Inc. v. Commissioner of Internal Revenue, 143 T. C. 401 (U. S. Tax Court 2014)

In RSW Enterprises, Inc. v. Commissioner, the U. S. Tax Court denied the IRS's motion for summary judgment in a case involving the revocation of favorable determination letters for two retirement plans. The court ruled that it was not limited to the administrative record in such cases because the parties disagreed on whether the record contained all relevant facts and whether those facts were in dispute. This decision underscores the court's ability to consider evidence beyond the administrative record in plan revocation cases, potentially affecting how similar cases are handled in the future.

Parties

RSW Enterprises, Inc. , and Key Lime Investments, Inc. , were the petitioners, challenging the revocation of their retirement plans' qualified status by the Commissioner of Internal Revenue, the respondent, in docket numbers 14820-11R and 14821-11R.

Facts

RSW Enterprises, Inc. , and Key Lime Investments, Inc. , both established retirement plans and received favorable determination letters from the IRS under I. R. C. sec. 401(a). The IRS later revoked these determinations, asserting that the plans failed to satisfy the coverage requirements under I. R. C. secs. 401(a)(3) and 410(b), and the minimum participation requirements under I. R. C. sec. 401(a)(26). The IRS argued that the plans were part of a controlled group and an affiliated service group with the Waage Law Firm, owned by Scott and June Waage, who were also the sole participants in the RSW and Key Lime plans. The petitioners disputed the IRS's claims, arguing that the trusts owning their stock were legitimate and that they did not form part of a controlled or affiliated service group with the Waage Law Firm.

Procedural History

After receiving the revocation letters, RSW and Key Lime petitioned the U. S. Tax Court for declaratory judgments under I. R. C. sec. 7476(a). The Commissioner moved for summary judgment, asserting that the court should be limited to the administrative record. The petitioners opposed the motion, arguing that genuine disputes of material fact existed and that the court should not be limited to the administrative record.

Issue(s)

Whether the Tax Court is limited to the administrative record in a declaratory judgment proceeding concerning the revocation of a retirement plan's qualified status when the parties disagree on whether the record contains all relevant facts and whether those facts are in dispute?

© 2025 SCOTUSreports.com. All rights reserved.

Rule(s) of Law

The Tax Court has jurisdiction to issue declaratory judgments regarding the initial or continuing qualification of retirement plans under I. R. C. sec. 7476(a). According to Tax Court Rule 217(a), the court may consider evidence beyond the administrative record in cases involving a plan revocation when the parties do not agree that the record contains all relevant facts and that those facts are not in dispute.

Holding

The Tax Court held that it was not limited to the administrative record in the declaratory judgment proceeding concerning the revocation of the RSW and Key Lime retirement plans' qualified status because the parties disagreed on whether the record contained all relevant facts and whether those facts were in dispute.

Reasoning

The court's reasoning was based on the distinction in Tax Court Rule 217(a) between cases involving initial qualification and those involving revocation. The rule presumes that the court is limited to the administrative record in cases of initial qualification, but not in cases of revocation where factual disputes are more likely. The court cited the legislative history of I. R. C. sec. 7476, which did not expect trials de novo in declaratory judgment actions but allowed for evidence beyond the administrative record in revocation cases. The court found that genuine disputes of material fact existed, particularly concerning the ownership structure of RSW and Key Lime and their relationship with the Waage Law Firm. The court also noted that the IRS admitted to lacking evidence regarding certain facts, which the petitioners claimed to possess. The court concluded that considering these disputes and the IRS's acknowledgment of incomplete evidence, it was appropriate to go beyond the administrative record.

Disposition

The court denied the Commissioner's motion for summary judgment and indicated that an appropriate order would be issued.

Significance/Impact

This decision clarifies the scope of the Tax Court's review in declaratory judgment actions involving the revocation of retirement plans' qualified status. It establishes that the court may consider evidence beyond the administrative record when there are genuine disputes of material fact and the parties disagree on the completeness of the record. This ruling could influence how the IRS and taxpayers approach similar cases, potentially encouraging more thorough documentation and evidence gathering to support their positions. It also highlights the importance of the procedural distinction between initial qualification and revocation cases in the

© 2025 SCOTUSreports.com. All rights reserved.

context of declaratory judgments.

© 2025 SCOTUSreports.com. All rights reserved.