Lindsay Manor Nursing Home, Inc. v. Commissioner, 148 T. C. No. 9 (2017)

In a significant ruling, the U. S. Tax Court upheld the IRS's regulation that restricts economic hardship relief from levies to individual taxpayers, denying such relief to corporations. Lindsay Manor Nursing Home, Inc. challenged the IRS's decision to uphold a proposed levy, arguing that the regulation conflicted with the Internal Revenue Code. The court, applying the Chevron doctrine, found the regulation to be a permissible interpretation of the statute, emphasizing the IRS's discretion to define economic hardship. This decision clarifies the scope of economic hardship relief and its application to different types of taxpayers.

Parties

Lindsay Manor Nursing Home, Inc. , the petitioner, was the corporate taxpayer challenging the IRS's decision. The respondent was the Commissioner of Internal Revenue. Lindsay Manor Nursing Home, Inc. was the plaintiff at the trial court level and remained the petitioner on appeal to the U. S. Tax Court.

Facts

Lindsay Manor Nursing Home, Inc. (Lindsay Manor) operates a nursing home facility in a rural Oklahoma community. In 2013, Lindsay Manor timely filed its Form 941 for the quarter ending December 31 but failed to pay its employment tax liability of $108,911, which was assessed by the IRS on April 14, 2014. On April 24, 2014, the IRS issued a notice of intent to levy on Lindsay Manor's property to collect the unpaid taxes. Lindsay Manor requested a Collection Due Process (CDP) hearing, asserting that the levy would cause economic hardship due to its financial condition. Lindsay Manor provided financial documentation, including a Form 433-B, showing an outstanding accounts receivable balance of $306,598. 61 due to nonpayment from Medicare, Medicaid, insurance, and private pay. Lindsay Manor argued that the levy would prevent it from providing essential care services to its patients, potentially leading to the loss of its license and other penalties. The IRS Appeals Office, through Settlement Officer (SO) Alcorte, denied Lindsay Manor's economic hardship claim, citing that such relief is available only to individual taxpayers under the applicable regulation.

Procedural History

Following the denial of economic hardship relief, the IRS Appeals Office issued a Notice of Determination sustaining the proposed levy on September 17, 2014. Lindsay Manor timely petitioned the U. S. Tax Court for review of this determination. Lindsay Manor moved for summary judgment, asserting that the regulation limiting economic hardship relief to individuals was invalid and that SO Alcorte abused her discretion by not considering its economic hardship argument. The U. S. Tax Court reviewed the case under the abuse of discretion standard, as the underlying tax liability was not in dispute.

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Issue(s)

Whether the regulation at 26 C. F. R. § 301. 6343-1(b)(4)(i), limiting economic hardship relief from a levy to individual taxpayers, is a valid interpretation of I. R. C. § 6343(a)(1)(D)?

Rule(s) of Law

I. R. C. § 6343(a)(1)(D) mandates the IRS to release a levy if it determines that the levy is creating an economic hardship due to the financial condition of the taxpayer. The regulation at 26 C. F. R. § 301. 6343-1(b)(4)(i) defines economic hardship as a condition where satisfaction of the levy will cause an individual taxpayer to be unable to pay reasonable basic living expenses. The Chevron doctrine provides a two-step framework for reviewing agency interpretations of statutes: (1) whether Congress has directly spoken to the precise question at issue, and (2) if the statute is silent or ambiguous, whether the agency's interpretation is based on a permissible construction of the statute.

Holding

The U. S. Tax Court held that I. R. C. § 6343(a)(1)(D) is silent or ambiguous regarding whether it applies to nonindividual taxpayers, and that the regulation at 26 C. F. R. § 301. 6343-1(b)(4)(i) is a valid and permissible interpretation of the statute. Consequently, the court denied Lindsay Manor's motion for summary judgment on this issue.

Reasoning

The court applied the Chevron doctrine to assess the validity of the regulation. At Chevron step one, the court found that I. R. C. § 6343(a)(1)(D) is silent or ambiguous with respect to the applicability of economic hardship relief to nonindividuals. The court examined the text of the statute, its legislative history, and the context in which the term

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