John C. Trimmer and Susan Trimmer v. Commissioner of Internal Revenue, 148 T. C. No. 14 (2017)

In Trimmer v. Commissioner, the U. S. Tax Court ruled that the IRS Examination Division had the authority to consider a hardship waiver of the 60-day rollover requirement for retirement account distributions. The court found that John Trimmer's major depressive disorder, which began after his retirement and prevented him from completing timely rollovers, qualified for such a waiver under I. R. C. sec. 402(c)(3)(B). This decision highlights the court's ability to review IRS discretion in granting hardship waivers and underscores the importance of equitable considerations in tax administration.

Parties

John C. Trimmer and Susan Trimmer were the petitioners in this case, challenging the Commissioner of Internal Revenue, the respondent, over a notice of deficiency issued on August 18, 2014, by the IRS.

Facts

John Trimmer, a retired New York City police officer, received two distributions totaling $101,670 from his retirement accounts in May and June 2011. Shortly after retiring, Trimmer began experiencing symptoms of major depressive disorder, which significantly impacted his ability to manage his affairs. The checks from the distributions remained uncashed on his dresser until July 5, 2011, when he deposited them into a joint bank account. Trimmer did not roll over the funds into an IRA until March 29, 2012, after being advised by his tax preparer. During this period, Trimmer's depression severely affected his daily functioning and decision-making capabilities. The Trimmers reported these distributions as nontaxable on their 2011 tax return. Upon IRS examination, they requested a hardship waiver of the 60-day rollover requirement, which was denied, leading to the notice of deficiency.

Procedural History

The IRS issued a Notice CP2000 to the Trimmers on December 16, 2013, proposing changes to their 2011 tax return, including the taxation of the retirement distributions. The Trimmers responded to this notice on April 30, 2014, requesting a hardship waiver due to Trimmer's depression. The IRS denied this request on June 6, 2014, and subsequently issued a notice of deficiency on August 18, 2014. The Trimmers timely petitioned the U. S. Tax Court for review. The court reviewed the IRS's denial of the hardship waiver and the imposition of additional tax under I. R. C. sec. 72(t) on early distributions, as well as the determination of unreported dividend income.

Issue(s)

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Whether the IRS Examination Division had the authority to consider the Trimmers' request for a hardship waiver under I. R. C. sec. 402(c)(3)(B)?

Whether the Tax Court has jurisdiction to review the IRS's denial of the hardship waiver request?

Whether the Trimmers are entitled to a hardship waiver under I. R. C. sec. 402(c)(3)(B) due to John Trimmer's major depressive disorder?

Whether the Trimmers are liable for the additional tax under I. R. C. sec. 72(t) on early distributions?

Whether the Trimmers failed to report $40 of dividend income in 2011?

Rule(s) of Law

I. R. C. sec. 402(c)(3)(B) allows the Secretary to waive the 60-day rollover requirement "where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement. "

Rev. Proc. 2003-16, as modified by Rev. Proc. 2016-47, provides guidance on applying for hardship waivers and confirms that the IRS Examination Division has the authority to consider such waivers during the examination process.

Holding

The Tax Court held that the IRS Examination Division had the authority to consider the Trimmers' request for a hardship waiver. The court further held that it had jurisdiction to review the IRS's denial of the hardship waiver request. The court granted the Trimmers a hardship waiver under I. R. C. sec. 402(c)(3)(B) due to John Trimmer's major depressive disorder, finding that denying the waiver would be against equity or good conscience. The court did not sustain the IRS's imposition of the additional tax under I. R. C. sec. 72(t) on early distributions but sustained the determination that the Trimmers failed to report $40 of dividend income.

Reasoning

The court reasoned that the IRS had the authority to consider hardship waivers during examinations, as evidenced by Rev. Proc. 2003-16 and its modification by Rev. Proc. 2016-47. The court found that the IRS's initial denial of the Trimmers' request was an abuse of discretion because it failed to consider the specific facts and circumstances outlined in Trimmer's letter, including his major depressive disorder. The court concluded that Trimmer's illness constituted a disability under I. R. C. sec. 402(c)(3)(B), significantly impairing his ability to complete the rollover within the 60-day period. The court also considered the objective factors listed in Rev. Proc. 2003-16, such as the use of the distributed funds and the time elapsed

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since the distribution, which were favorable to the Trimmers. The court's review of private letter rulings showed that the IRS had granted waivers in similar circumstances, supporting the court's decision to grant a waiver in this case. The court rejected the IRS's arguments against judicial review, finding that the denial of a hardship waiver directly affected the deficiency determination and was subject to review under the court's deficiency jurisdiction.

Disposition

The court overruled the IRS's denial of the hardship waiver and granted the Trimmers' request for a waiver under I. R. C. sec. 402(c)(3)(B). The court did not sustain the imposition of the additional tax under I. R. C. sec. 72(t) but sustained the determination of unreported dividend income. An appropriate order was issued, and a decision was entered under Rule 155.

Significance/Impact

This case clarifies the IRS's authority to consider hardship waivers during examinations and the Tax Court's jurisdiction to review such denials. It emphasizes the importance of equitable considerations in tax administration, particularly in cases involving mental health issues that impair a taxpayer's ability to comply with tax requirements. The decision may encourage taxpayers to seek hardship waivers in similar circumstances and highlights the need for the IRS to carefully consider such requests based on the specific facts and circumstances of each case. The case also reaffirms the court's role in reviewing IRS discretion and ensuring fair application of tax laws.

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