First Rock Baptist Church Child Development Center and First Rock Baptist Church v. Commissioner of Internal Revenue, 148 T. C. 17 (2017)

The U. S. Tax Court upheld its jurisdiction in a case involving First Rock Baptist Church Child Development Center's challenge to the IRS's rejection of its proposed installment agreement for unpaid employment taxes. Despite the IRS withdrawing the Notice of Federal Tax Lien (NFTL) as requested, the court found the case not moot because the dispute over the installment agreement remained unresolved. The court's decision clarifies that jurisdiction is retained over issues addressed in a notice of determination, even if part of the relief sought is granted, and emphasizes the requirement for taxpayers to raise challenges to underlying liabilities during CDP hearings.

Parties

First Rock Baptist Church Child Development Center (Petitioner) and First Rock Baptist Church (Petitioner) v. Commissioner of Internal Revenue (Respondent). The case originated in the U. S. Tax Court, Docket No. 16724-14L.

Facts

First Rock Baptist Church Child Development Center (the Center) incurred employment tax liabilities for the years 2007-2010, totaling $438,381, including additions to tax and interest. The IRS issued a Notice of Federal Tax Lien (NFTL) to the Center but mistakenly listed First Rock Baptist Church (the Church) as the addressee. Both the Center and the Church requested a collection due process (CDP) hearing. During the hearing, the Center proposed an installment agreement, which was rejected. After a remand, a new settlement officer (SO2) withdrew the NFTL but again rejected the installment agreement because the Center had not complied with its ongoing tax return filing obligations.

Procedural History

The IRS issued the NFTL to collect the Center's employment tax liabilities. The Center and the Church requested a CDP hearing, during which the Center's proposed installment agreement was rejected. The case was petitioned to the U. S. Tax Court, which remanded it to the IRS Appeals Office. Upon remand, SO2 withdrew the NFTL but denied the installment agreement. The Tax Court subsequently reviewed SO2's determination under the standard of abuse of discretion.

Issue(s)

1. Whether the Tax Court has jurisdiction to review the IRS's determination concerning the Center's proposed installment agreement despite the withdrawal of the NFTL.
2. Whether the case is moot given the withdrawal of the NFTL.

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3. Whether the Tax Court can consider the Center's challenge to its underlying tax liabilities.
4. Whether SO2 abused his discretion in denying the Center's request for an installment agreement.

Rule(s) of Law

1. Under I. R. C. § 6330(d)(1), the Tax Court has jurisdiction to review determinations made by the IRS in a CDP hearing.
2. A case is not moot if there remains a live controversy between the parties, even if part of the requested relief is granted.
3. Challenges to underlying tax liabilities must be raised during the CDP hearing to be considered by the Tax Court.
4. The IRS may reject a proposed installment agreement if the taxpayer is not in compliance with all filing and payment requirements. Internal Revenue Manual (IRM) pt. 5. 14. 1. 4. 2(3).

Holding

1. The Tax Court has jurisdiction to review the IRS's determination regarding the Center's proposed installment agreement because the notice of determination addressed this issue and was sent to the Center.
2. The case is not moot because there remains a live controversy over the installment agreement despite the withdrawal of the NFTL.
3. The Tax Court cannot consider the Center's challenge to its underlying tax liabilities because the Center did not raise this issue during the CDP hearing.
4. SO2 did not abuse his discretion in denying the Center's request for an installment agreement because the Center was not in compliance with its ongoing tax return filing obligations.

Reasoning

The Tax Court's jurisdiction hinges on the issuance of a valid notice of determination and a timely petition for review. The notice sent to the Center, despite the error in naming the Church as the addressee, sufficiently identified the Center's tax liabilities and the collection action, thus conferring jurisdiction over the installment agreement issue. The court rejected the IRS's argument that the case was moot because the withdrawal of the NFTL did not resolve all issues, particularly the unresolved dispute over the installment agreement. The court also noted that the Center failed to raise its challenges to the underlying tax liabilities during the CDP hearing, thus precluding judicial review on those grounds. Finally, the court upheld SO2's decision to deny the installment agreement, as the Center was not in compliance with its filing obligations at the time of the determination, in line with the IRM's requirement for such agreements.

Disposition

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The Tax Court granted summary judgment in favor of the Commissioner of Internal Revenue, sustaining the collection action set forth in the supplemental notice of determination, which withdrew the NFTL but rejected the proposed installment agreement.

Significance/Impact

This case clarifies the scope of the Tax Court's jurisdiction in CDP hearings, affirming that jurisdiction is maintained over issues addressed in a notice of determination, even if some relief is granted. It underscores the necessity for taxpayers to raise challenges to underlying liabilities during CDP hearings to preserve them for judicial review. The decision also reinforces the IRS's authority to deny installment agreements based on noncompliance with filing obligations, as per the Internal Revenue Manual. The ruling may impact how taxpayers approach CDP hearings and the strategic considerations in challenging IRS collection actions.

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