McNeill v. Commissioner, 148 T. C. 23 (U. S. Tax Ct. 2017)

In McNeill v. Commissioner, the U. S. Tax Court ruled that it has jurisdiction to review a Collection Due Process (CDP) determination concerning penalties related to partnership items, despite these penalties being excluded from the court's deficiency jurisdiction under TEFRA. This decision clarifies the Tax Court's authority in CDP cases post-amendment by the Pension Protection Act of 2006, ensuring taxpayers can contest collection actions for such penalties in the Tax Court, which is significant for those involved in partnership tax disputes.

Parties

Corbin A. McNeill and Dorice S. McNeill, as Petitioners, v. Commissioner of Internal Revenue, as Respondent.

Facts

In 2003, Corbin A. McNeill, after retiring, invested in a distressed asset/debt (DAD) transaction by purchasing an 89. 1% interest in GUISAN, LLC, which held Brazilian consumer debt. GUISAN contributed this debt to LABAITE, LLC, another partnership. A subsequent sale of these receivables by LABAITE resulted in a claimed loss, which the McNeills reported on their 2003 joint federal income tax return. The IRS issued a notice of final partnership administrative adjustment (FPAA) to LABAITE's partners, disallowing the loss and asserting an accuracy-related penalty under I. R. C. section 6662. The McNeills paid the tax liability and interest but not the penalty. After the IRS assessed the penalty and initiated collection procedures, the McNeills requested a CDP hearing, challenging the penalty's assessment. The IRS Appeals officer issued a notice sustaining the collection action, asserting that the McNeills could not raise the issue of their underlying tax liability.

Procedural History

The McNeills, as GUISAN's tax matters partner, filed a complaint in the U. S. District Court for the District of Connecticut for judicial review of the 2003 FPAA. They made an estimated deposit to satisfy jurisdictional requirements but not the section 6662 penalty. The case was voluntarily dismissed with prejudice by the McNeills, and the District Court deemed the FPAA correct without adjudicating partner-level defenses. Following the IRS's assessment of the penalty and subsequent collection notices, the McNeills requested a CDP hearing, which resulted in a notice of determination sustaining the collection action. The McNeills timely filed a petition with the Tax Court, challenging the Tax Court's jurisdiction over the case due to the penalty's exclusion from deficiency procedures under I. R. C. section 6230(a)(2)(A)(i).

Issue(s)

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Whether the U. S. Tax Court has jurisdiction under I. R. C. section 6330(d)(1), as amended by the Pension Protection Act of 2006, to review a CDP determination when the underlying tax liability consists solely of a penalty that relates to an adjustment to a partnership item excluded from deficiency procedures by I. R. C. section 6230(a)(2)(A)(i)?

Rule(s) of Law

I. R. C. section 6330(d)(1) provides the Tax Court with jurisdiction to review a notice of determination issued pursuant to a CDP hearing. This jurisdiction was expanded by the Pension Protection Act of 2006 to include all such notices, regardless of the underlying liability's type. I. R. C. section 6221 mandates that the tax treatment of partnership items and related penalties be determined at the partnership level. I. R. C. section 6230(a)(2)(A)(i) excludes penalties relating to partnership item adjustments from deficiency procedures.

Holding

The U. S. Tax Court holds that it has jurisdiction to review the Commissioner's determination in the CDP case concerning the asserted I. R. C. section 6662(a) penalty, despite the penalty being excluded from the Tax Court's deficiency jurisdiction under I. R. C. sections 6221 and 6230.

Reasoning

The Tax Court's jurisdiction in CDP cases is governed by I. R. C. section 6330(d)(1), which was amended in 2006 to grant the Tax Court exclusive jurisdiction over all CDP determinations. The amendment aimed to provide taxpayers with a single venue for contesting collection actions. The court noted that prior to the amendment, it lacked jurisdiction over penalties not subject to deficiency proceedings, such as those under I. R. C. section 6662 related to partnership items. However, the 2006 amendment intended to expand the court's jurisdiction to include review of all collection determinations, regardless of the type of underlying liability. The court cited cases like Yari v. Commissioner, Mason v. Commissioner, and Callahan v. Commissioner, which upheld the Tax Court's jurisdiction in similar situations. The court reasoned that the legislative intent behind the amendment was to ensure that taxpayers could contest collection actions for all types of liabilities in the Tax Court, thereby overriding the exclusion of certain penalties from deficiency jurisdiction in the context of CDP review.

Disposition

The U. S. Tax Court asserts jurisdiction over the case and will proceed to address the remaining issues in a separate opinion.

Significance/Impact

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The McNeill decision is doctrinally significant as it clarifies the Tax Court's jurisdiction in CDP cases involving penalties related to partnership items post-Pension Protection Act of 2006. This ruling ensures that taxpayers can challenge collection actions for such penalties in the Tax Court, which is crucial for those involved in partnership tax disputes. The decision aligns with the legislative intent to streamline the review process for collection actions and provides a clearer path for taxpayers to contest IRS determinations without the necessity of separate refund litigation for partner-level defenses. Subsequent courts have treated this ruling as authoritative in determining the scope of the Tax Court's jurisdiction in similar cases, impacting legal practice by offering a more unified approach to resolving disputes over penalties related to partnership items.

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