Sun River Financial Trust v. Commissioner, T. C. Memo. 2020-30 (U. S. Tax Court 2020)

In a significant ruling on collection due process (CDP) hearings, the U. S. Tax Court upheld the IRS's decision to proceed with a levy and filing of a federal tax lien against Sun River Financial Trust for unpaid frivolous return penalties under Section 6702. The court found no abuse of discretion by the IRS, emphasizing that the taxpayer's challenge to the reliability of IRS computer systems was insufficient to contest the underlying liability or the collection actions. This decision underscores the importance of raising meaningful challenges during CDP hearings and the deference given to IRS determinations in such cases.

Parties

Sun River Financial Trust, with Jay A. Greek as Trustee, was the petitioner in this case. The respondent was the Commissioner of Internal Revenue. The case was heard in the U. S. Tax Court under docket number 20735-16L.

Facts

Sun River Financial Trust filed delinquent tax returns for the years 2010 and 2011, reporting taxable incomes of $42,371 and $53,888 respectively, and claiming full refunds despite tax withholdings. The returns included Forms 1099-A, 1099-B, and 1099-OID, which the IRS deemed frivolous. After notifying the Trust of the frivolous nature of its returns and offering a chance to amend, the IRS assessed $5,000 penalties under Section 6702 for each year. The Trust did not amend its returns and instead submitted correspondence arguing the unreliability of IRS computer systems, based on GAO reports, without contesting the penalties' merits. The IRS proceeded with notices of intent to levy and file a federal tax lien, leading to a CDP hearing.

Procedural History

The IRS issued a Final Notice of Intent to Levy and a Notice of Federal Tax Lien Filing in 2016, to which the Trust responded with requests for CDP hearings. The Settlement Officer (SO) reviewed the case, confirmed the assessments, and upheld the collection actions after the Trust failed to present evidence connecting the GAO reports to the assessments. The Trust then sought review in the U. S. Tax Court, which denied a motion to dismiss and upheld the IRS's decision, finding no abuse of discretion.

Issue(s)

Whether the IRS abused its discretion in sustaining the proposed levy and the filing of a federal tax lien against Sun River Financial Trust for the collection of Section 6702 penalties for the years 2010 and 2011.

© 2025 SCOTUSreports.com. All rights reserved.

Rule(s) of Law

Section 6330(c)(3) of the Internal Revenue Code requires the SO to consider whether applicable legal and administrative requirements have been met, issues raised by the taxpayer, and the balance between efficient tax collection and the taxpayer's concerns about the intrusiveness of collection actions. The standard of review in CDP cases is for abuse of discretion, except when the underlying tax liability is properly contested, in which case the review is de novo.

Holding

The U. S. Tax Court held that the IRS did not abuse its discretion in sustaining the proposed levy and the filing of the federal tax lien against Sun River Financial Trust for the collection of Section 6702 penalties for 2010 and 2011.

Reasoning

The court's reasoning focused on the adequacy of the Trust's challenge during the CDP hearing. The Trust's argument centered on the unreliability of IRS computer systems, based on GAO reports, but failed to connect these reports to the specific assessments of the Section 6702 penalties. The court noted that without a meaningful challenge to the penalties themselves, the Trust did not properly raise its underlying liability. Furthermore, the court found that the SO adhered to statutory and administrative guidelines, relying on TXMODA transcripts to verify the assessments, which is permissible absent evidence of irregularity in the assessment procedure. The court emphasized that the SO considered all required elements under Section 6330(c)(3), including the verification of legal and administrative compliance, the issues raised by the Trust, and the balance between collection efficiency and taxpayer concerns. The court concluded that the SO's decision was reasoned and balanced, and thus not an abuse of discretion.

Disposition

The U. S. Tax Court sustained the IRS's decision to proceed with the proposed levy and the filing of the federal tax lien against Sun River Financial Trust.

Significance/Impact

This case reinforces the importance of taxpayers raising substantive challenges to their underlying liabilities during CDP hearings. It clarifies that general allegations about the IRS's systems, without specific connections to the assessments in question, are insufficient to contest liability. The decision also upholds the deference given to IRS determinations in CDP cases, emphasizing that the court will not substitute its judgment for that of the SO unless there is clear evidence of abuse of discretion. This ruling has practical implications for legal practice, particularly in advising clients on how to effectively challenge IRS collection actions and the necessity of providing concrete evidence and arguments during CDP hearings.

© 2025 SCOTUSreports.com. All rights reserved.