Amanda Iris Gluck Irrevocable Trust v. Commissioner, 154 T. C. No. 11 (U. S. Tax Court 2020)

In Amanda Iris Gluck Irrevocable Trust v. Commissioner, the U. S. Tax Court clarified its jurisdiction in collection due process (CDP) cases involving computational adjustments under the Tax Equity and Fiscal Responsibility Act (TEFRA). The Court held that while it lacked jurisdiction over the 2012 tax year due to the absence of a collection action, it could review the Trust's underlying tax liabilities for 2014 and 2015 in a CDP context, despite these liabilities stemming from computational adjustments. This ruling underscores the broader scope of judicial review in CDP proceedings compared to deficiency cases, offering taxpayers a chance to contest liabilities they could not previously challenge.

Parties

Amanda Iris Gluck Irrevocable Trust (Petitioner) v. Commissioner of Internal Revenue (Respondent). The Trust was the petitioner at the U. S. Tax Court level, challenging the Commissioner's actions through a collection due process (CDP) hearing and subsequent judicial review.

Facts

The Amanda Iris Gluck Irrevocable Trust (the Trust) was a direct and indirect partner in partnerships subject to the unified audit and litigation procedures of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). In 2012, one of these partnerships sold property and realized a large capital gain. The Trust allegedly failed to report its entire distributive share of this gain, prompting the IRS to make computational adjustments to the Trust's 2012-2015 tax returns. These adjustments eliminated the Trust's net operating loss (NOL) for 2012 and disallowed NOL carryforward deductions for 2013-2015, resulting in assessed tax liabilities for those years. The IRS issued a levy notice for the 2013-2015 tax years, which the Trust challenged through a CDP hearing and subsequent petition to the U. S. Tax Court.

Procedural History

The IRS made computational adjustments to the Trust's 2012-2015 tax returns and assessed the resulting tax liabilities. The IRS then issued a levy notice for the 2013-2015 tax years, prompting the Trust to request a CDP hearing. The settlement officer (SO) sustained the levy notice, and the Trust timely petitioned the U. S. Tax Court for review. The Commissioner moved to dismiss the case as to the 2012 and 2013 tax years, arguing that the 2012 tax year was not subject to the levy notice and that the 2013 liability had been fully paid. The Commissioner also moved for summary judgment as to the 2014 and 2015 tax years.

Issue(s)

1. Whether the U. S. Tax Court has jurisdiction to review the Trust's underlying tax

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liability for the 2012 tax year in this CDP proceeding?

2. Whether the U. S. Tax Court has jurisdiction to review the Trust's underlying tax liabilities for the 2013-2015 tax years in this CDP proceeding?

3. Whether the Trust's challenge to the collection action for the 2013 tax year is moot due to full payment of the liability?

4. Whether the Trust is entitled to challenge its underlying tax liabilities for the 2014 and 2015 tax years in this CDP proceeding?

Rule(s) of Law

1. Under I. R. C. § 6330(d)(1), the U. S. Tax Court has jurisdiction to review a notice of determination issued following a CDP hearing if a timely petition is filed.

2. I. R. C. § 6330(c)(2)(B) allows a taxpayer to challenge the existence or amount of an underlying tax liability in a CDP proceeding if the taxpayer did not receive a statutory notice of deficiency or did not otherwise have an opportunity to dispute such tax liability.

3. I. R. C. § 6230(a)(1) generally prohibits the U. S. Tax Court from reviewing computational adjustments in deficiency proceedings, but this limitation does not apply in CDP cases.

4. The U. S. Tax Court reviews the SO's determination regarding underlying tax liabilities de novo and other aspects of the determination for abuse of discretion.

Holding

1. The U. S. Tax Court lacks jurisdiction over the Trust's 2012 tax year because no collection action was taken for that year.

2. The U. S. Tax Court has jurisdiction under I. R. C. § 6330(d)(1) to review the Trust's underlying tax liabilities for the 2013-2015 tax years in this CDP proceeding.

3. The Trust's challenge to the collection action for the 2013 tax year is moot because the liability has been fully paid.

4. The Trust is entitled to challenge its underlying tax liabilities for the 2014 and 2015 tax years because it did not have a prior opportunity to dispute these liabilities.

Reasoning

The U. S. Tax Court's reasoning in this case focused on the scope of its jurisdiction in CDP proceedings and the distinction between deficiency and CDP cases regarding computational adjustments. The Court emphasized that while it generally lacks

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jurisdiction to review computational adjustments in deficiency proceedings under I. R. C. § 6230(a)(1), its jurisdiction in CDP cases is not similarly limited. The Court cited McNeill v. Commissioner, 148 T. C. 481 (2017), to support its authority to review underlying liabilities arising from computational adjustments in CDP proceedings.

The Court also analyzed the Trust's right to challenge its underlying liabilities under I. R. C. § 6330(c)(2)(B), which allows such challenges if the taxpayer did not receive a statutory notice of deficiency or did not otherwise have an opportunity to dispute the liability. The Court determined that the Trust did not have a prior opportunity to dispute its 2014 and 2015 liabilities in a prepayment posture, thus entitling it to raise these challenges in the CDP hearing.

The Court rejected the Commissioner's argument that the Trust was merely disputing its 2012 tax liability to create an overpayment for offsetting purposes. Instead, the Court found that the Trust was challenging the disallowance of NOL carryforward deductions for 2014 and 2015, which directly affected its underlying tax liabilities for those years. The Court noted that it could consider facts related to other tax years, such as the 2012 NOL, to determine the correct amount of deductions for the years in issue.

The Court also addressed the standard of review in CDP cases, applying de novo review to the Trust's underlying liability challenges and abuse of discretion review to other aspects of the SO's determination. The Court found genuine disputes of material fact regarding the Trust's entitlement to NOL carryforward deductions for 2014 and 2015, precluding summary judgment.

Disposition

The U. S. Tax Court granted the Commissioner's motion to dismiss for lack of jurisdiction as to the 2012 tax year and dismissed the 2013 tax year as moot. The Court denied the Commissioner's motion for summary judgment as to the 2014 and 2015 tax years, finding genuine disputes of material fact regarding the Trust's underlying tax liabilities for those years.

Significance/Impact

This case clarifies the U. S. Tax Court's jurisdiction in CDP proceedings involving computational adjustments under TEFRA. It underscores the broader scope of judicial review available to taxpayers in CDP cases compared to deficiency proceedings, allowing them to challenge underlying tax liabilities that they could not previously dispute. The decision also highlights the importance of the CDP process as a mechanism for taxpayers to contest tax liabilities assessed through computational adjustments, particularly when they have not had a prior opportunity to challenge those liabilities. This ruling may impact how taxpayers and the IRS approach CDP hearings and the litigation of tax liabilities arising from partnership

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