Sutherland v. Commissioner, 155 T. C. No. 6 (2020)

In Sutherland v. Commissioner, the U. S. Tax Court ruled that the new scope of review under I. R. C. section 6015(e)(7), which limits review to the administrative record, does not apply to petitions filed before July 1, 2019. The court maintained a de novo review for Donna Sutherland's case, filed in 2018, rejecting her motion to remand to the IRS for additional evidence. This decision underscores the importance of filing dates in determining applicable legal standards and impacts how taxpayers manage evidence during IRS proceedings.

Parties

Donna M. Sutherland, Petitioner, v. Commissioner of Internal Revenue, Respondent. At the trial court level, Sutherland was the petitioner and the Commissioner was the respondent. This designation continued through the appeal to the U. S. Tax Court.

Facts

In 2010, Donna Sutherland's husband was convicted of tax crimes and required to file delinquent returns for 2005 and 2006 as part of his plea agreement. Before his sentencing, Sutherland signed joint returns for those years. In August 2016, she filed a request for innocent spouse relief under I. R. C. section 6015 for the tax years 2005 and 2006, claiming she signed the returns during an emotional period and had no input in their preparation. The IRS Appeals officer reviewed her case and denied her request on November 15, 2017. Sutherland timely petitioned the U. S. Tax Court on February 20, 2018, seeking review of the IRS's denial.

During the administrative process, Sutherland's representative believed the Appeals officer was not correctly applying the factors for determining her eligibility for relief. Believing that a de novo review would be more favorable, the representative did not submit additional evidence to the IRS. After the Taxpayer First Act was enacted on July 1, 2019, adding I. R. C. section 6015(e)(7), which limits the Tax Court's review to the administrative record and newly discovered evidence, Sutherland moved to remand the case to the IRS to submit additional evidence concerning her mental state when signing the returns.

Procedural History

Sutherland filed her request for innocent spouse relief with the IRS in August 2016. After the IRS issued a preliminary denial on April 24, 2017, Sutherland appealed, and her case was assigned to an IRS Appeals officer. Following the officer's final determination letter denying relief on November 15, 2017, Sutherland timely petitioned the U. S. Tax Court on February 20, 2018. The Tax Court considered the case under the standard of de novo review applicable at the time of filing. Sutherland then filed a motion to remand on November 11, 2019, after the enactment of the Taxpayer First Act, which she argued should apply to her case.

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Issue(s)

Whether I. R. C. section 6015(e)(7), which limits the Tax Court's review of innocent spouse relief determinations to the administrative record and newly discovered or previously unavailable evidence, applies to petitions filed before its enactment on July 1, 2019?

Rule(s) of Law

I. R. C. section 6015(e)(7) provides that the Tax Court's review of a determination under section 6015 shall be de novo and based upon the administrative record established at the time of the determination and any additional newly discovered or previously unavailable evidence. The Taxpayer First Act, which added this section, specified that these amendments "shall apply to petitions or requests filed or pending on or after the date of the enactment of this Act," which was July 1, 2019.

Holding

The U. S. Tax Court held that I. R. C. section 6015(e)(7) does not apply to petitions filed before July 1, 2019. Because Sutherland's petition was filed on February 20, 2018, the court maintained a de novo review standard for her case and denied her motion to remand.

Reasoning

The court's reasoning focused on interpreting the effective date provision of the Taxpayer First Act. The court determined that the phrase "petitions or requests filed or pending" was structurally ambiguous but concluded that "filed" modified only "petitions" and "pending" modified only "requests. " This interpretation was supported by the absence of the phrase "petitions pending" in the Code, Congress's typical usage of "cases pending" or "proceedings pending" when referring to ongoing matters in the Tax Court, and the logical structure of the Act's amendments.

The court also applied the canon against superfluity, arguing that interpreting "filed" and "pending" to modify both "petitions" and "requests" would render "filed" superfluous. The court noted that applying the new scope of review retroactively to cases like Sutherland's would be inequitable, as taxpayers would be disadvantaged for not having fully developed the administrative record under the belief that de novo review would apply.

The court rejected Sutherland's motion to remand because, with de novo review still applicable, remanding the case to the IRS for additional evidence would serve no useful purpose. The court did not need to reconsider its holding in Friday v. Commissioner, which declined to remand stand-alone innocent spouse cases, as the premise for Sutherland's motion was invalidated by the inapplicability of section 6015(e)(7).

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Disposition

The U. S. Tax Court denied Sutherland’s motion to remand, maintaining that her case would proceed under the de novo standard of review.

Significance/Impact

This decision clarifies that the scope of review under I. R. C. section 6015(e)(7) applies only to petitions filed on or after July 1, 2019, and not retroactively to cases filed before that date. It underscores the importance of the filing date in determining the applicable legal standard and highlights the potential inequity of retroactive application of new review standards. The ruling impacts how taxpayers and their representatives manage evidence during IRS proceedings, emphasizing the need to fully develop the administrative record in anticipation of potential limitations on judicial review. Subsequent courts have followed this interpretation, ensuring consistency in the application of section 6015(e)(7).

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