Krigizia I. Grajales v. Commissioner of Internal Revenue, 156 T. C. No. 3 (U. S. Tax Ct. 2021)

In Krigizia I. Grajales v. Commissioner, the U. S. Tax Court ruled that the 10% additional tax on early distributions from qualified retirement plans under I. R. C. § 72(t) is classified as a “tax” rather than a penalty, addition to tax, or additional amount. This classification means it is not subject to the written supervisory approval requirement of I. R. C. § 6751(b). The ruling impacts how such exactions are administered and potentially assessed in future cases.

Parties

Krigizia I. Grajales, the petitioner, brought this action against the Commissioner of Internal Revenue, the respondent, in the United States Tax Court under Docket No. 21119-17.

Facts

In 2015, Krigizia I. Grajales, aged 42, took loans from her New York State pension plan. She received a Form 1099-R reporting gross distributions of $9,026. Grajales did not report these distributions as income on her 2015 federal income tax return. The Commissioner issued a notice of deficiency determining a $3,030 deficiency, which included a 10% additional tax on early distributions under I. R. C. § 72(t). The parties agreed that only $908. 62 of the distributions were taxable as early distributions, with the sole issue being whether these were subject to the 10% additional tax.

Procedural History

The case was submitted to the Tax Court without trial under Rule 122. The Commissioner determined a deficiency, and Grajales timely petitioned the court. The court’s standard of review was de novo, as it involved the interpretation of the Internal Revenue Code.

Issue(s)

Whether the 10% additional tax on early distributions from qualified retirement plans under I. R. C. § 72(t) is a “tax” or a “penalty”, “addition to tax”, or “additional amount” for purposes of the written supervisory approval requirement under I. R. C. § 6751(b)?

Rule(s) of Law

I. R. C. § 72(t) imposes a 10% additional tax on early distributions from qualified retirement plans. I. R. C. § 6751(b) requires written supervisory approval for the initial determination of any penalty, addition to tax, or additional amount. I. R. C. § 6751(c) defines “penalties” to include any addition to tax or additional amount.

Holding

The court held that the 10% additional tax under I. R. C. § 72(t) is a “tax” and not a “penalty”, “addition to tax”, or “additional amount”. Therefore, it is not subject to the written supervisory approval requirement of I. R. C. § 6751(b). Consequently, Grajales was liable for the $90. 86 additional tax on the agreed-upon taxable early distributions of $908. 62.

Reasoning

The court’s reasoning focused on statutory interpretation and precedent. It noted that I. R. C. § 72(t) explicitly labels the exaction as a “tax”, and it is located in Subtitle A, Chapter 1, which deals with “Income Taxes” and “Normal Taxes and Surtaxes”. The court cited previous cases like Williams v. Commissioner, 151 T. C. 1 (2018), and El v. Commissioner, 144 T. C. 140 (2015), which consistently treated the § 72(t) exaction as a “tax”. The court rejected the petitioner’s argument that the exaction should be considered an “additional amount” under § 6751(c), emphasizing that “additional amount” refers specifically to civil penalties in Chapter 68, Subchapter A. The court also distinguished the Supreme Court’s decision in National Federation of Independent Business v. Sebelius, 567 U. S. 519 (2012), noting that it involved a constitutional analysis and not statutory interpretation, and thus was not applicable to the present case. The court further clarified that bankruptcy cases, such as In re Daley, 315 F. Supp. 3d 679 (D. Mass. 2018), were not controlling for tax purposes due to their focus on bankruptcy policy.

Disposition

The court decided that Grajales was liable for the $90. 86 additional tax under I. R. C. § 72(t) and directed that a decision be entered under Rule 155 to determine the overall deficiency.

Significance/Impact

The decision in Grajales reaffirms the classification of the § 72(t) exaction as a “tax”, impacting its administration and potential challenges by taxpayers. It clarifies that the supervisory approval requirement of § 6751(b) does not apply, which may streamline the assessment process for the IRS. The ruling also underscores the importance of statutory text in determining the nature of exactions under the Internal Revenue Code, potentially influencing future interpretations of similar provisions. The case’s significance lies in its confirmation of the tax status of § 72(t) exactions, which may affect taxpayer planning and compliance strategies concerning early withdrawals from retirement plans.

