Sand Investment Co. , LLC v. Commissioner, 157 T. C. 11 (U. S. Tax Court 2021)

The U. S. Tax Court clarified the definition of ‘immediate supervisor’ under I. R. C. § 6751(b)(1), ruling that it pertains to the individual who directly oversees an agent’s substantive work on an examination, not merely their hierarchical superior. This decision ensures that penalty assessments are reviewed by those most familiar with the case, aligning with Congress’s intent to prevent unjustified penalty assertions.

Parties

Sand Investment Co. , LLC, with Inland Capital Management, LLC as the tax matters partner, was the petitioner. The respondent was the Commissioner of Internal Revenue.

Facts

Sand Investment Co. , LLC, a South Carolina limited liability company treated as a partnership for federal income tax purposes, claimed a charitable contribution deduction of $80,150,000 for a conservation easement donation in 2015. The Internal Revenue Service (IRS) examined Sand’s tax return and assigned the case to Revenue Agent (RA) Adrienne Cooper, supervised by Gregory Burris of Team 1124 in the IRS Large Business & International Division (LB&I). In September 2018, RA Cooper was promoted and transferred to a new team under William Wilson’s supervision, but she continued working on the Sand examination under Burris’s supervision. On September 27, 2018, RA Cooper decided to assert accuracy-related penalties against Sand. She prepared a penalty approval form, which Burris signed on November 20, 2018, before RA Cooper informed Sand of the potential penalties on November 21, 2018. Wilson signed the form on November 23, 2018. The IRS issued a final partnership administrative adjustment (FPAA) on February 8, 2019, disallowing the deduction and asserting penalties.

Procedural History

Sand filed a motion for partial summary judgment, arguing that Wilson, as RA Cooper’s new team manager, was her ‘immediate supervisor’ under I. R. C. § 6751(b)(1) and that his approval of the penalties was untimely. The IRS filed a cross-motion, asserting that Burris, who supervised RA Cooper’s work on the Sand examination, was the relevant ‘immediate supervisor’ and that his approval was timely. The Tax Court granted the IRS’s motion and denied Sand’s motion.

Issue(s)

Whether, for purposes of I. R. C. § 6751(b)(1), the ‘immediate supervisor’ of an IRS agent who makes an initial determination of a penalty assessment is the person who directly supervises the agent’s substantive work on an examination or the agent’s hierarchical superior in the IRS organizational structure?

Rule(s) of Law

I. R. C. § 6751(b)(1) requires that the initial determination of a penalty assessment be personally approved in writing by the 'immediate supervisor' of the individual making such determination. The court interpreted 'immediate supervisor' to mean the individual who directly oversees the agent's substantive work on an examination, rather than the agent's hierarchical superior.

Holding

The court held that for purposes of I. R. C. § 6751(b)(1), the 'immediate supervisor' is the individual who directly supervises the examining agent's work on an examination. Therefore, Burris, who supervised RA Cooper's work on the Sand examination, was her 'immediate supervisor', and his timely approval of the penalties satisfied the requirements of the statute.

Reasoning

The court's reasoning focused on the statutory text and legislative intent of I. R. C. § 6751(b)(1). It noted that the term 'immediate supervisor' was not defined in the statute, but its ordinary meaning suggested the person who directly oversees the agent's substantive work. The court cited legislative history indicating that Congress intended to prevent IRS agents from using penalties as bargaining chips during settlement negotiations, suggesting that the person most familiar with the case should review penalty determinations. The court rejected Sand's argument that the 'immediate supervisor' should be the agent's hierarchical superior, emphasizing that the relevant supervisor is the one overseeing the agent's work on the examination. The court also considered the Internal Revenue Manual's guidance, which indicated that the issue manager, in this case Burris, should approve penalties. The court concluded that Burris, as the case and issue manager who supervised RA Cooper's work throughout the examination, was the appropriate 'immediate supervisor' to approve the penalties.

Disposition

The court granted the IRS's motion for partial summary judgment and denied Sand's motion, affirming that the IRS complied with I. R. C. § 6751(b)(1) by securing timely approval of the penalties from RA Cooper's 'immediate supervisor', Burris.

Significance/Impact

This decision clarifies the application of I. R. C. § 6751(b)(1), emphasizing that the 'immediate supervisor' for penalty approval purposes is the individual directly overseeing the agent's substantive work on an examination. This interpretation aligns with Congress's intent to ensure that penalty assessments are reviewed by those most knowledgeable about the case, potentially affecting future IRS penalty determinations and related litigation. The ruling may influence how the IRS structures its examination teams and assigns supervisory responsibilities, ensuring that penalty approvals are handled by those with the deepest understanding of the case’s facts and issues.

