Chavis v. Commissioner, 158 T. C. No. 8 (U. S. Tax Ct. 2022)

In Chavis v. Commissioner, the U. S. Tax Court upheld the IRS's decision to sustain a tax lien against Angela M. Chavis for trust fund recovery penalties (TFRPs) assessed due to her corporation's failure to pay payroll taxes. The court ruled that Chavis could not challenge her underlying liability at the collection due process (CDP) hearing because she had a prior opportunity to contest it. Additionally, the court affirmed that 'innocent spouse' relief was unavailable for TFRP liabilities, and upheld the IRS's decision not to place her account in 'currently not collectible' status, emphasizing the procedural limitations in CDP hearings and the distinct nature of TFRP liabilities from joint income tax liabilities.

Parties

Angela M. Chavis, Petitioner, pro se; Commissioner of Internal Revenue, Respondent, represented by Catherine S. Tyson.

Facts

Angela M. Chavis and her then-husband were officers of Oasys Information Systems, Inc. , a corporation that withheld payroll taxes from its employees but failed to pay those taxes to the government during 2011-2014. The IRS issued Chavis a Letter 1153, Notice of Trust Fund Recovery Penalty, proposing to assess TFRPs against her and her husband under I. R. C. § 6672. Chavis received the letter but did not challenge the proposed assessment. Subsequently, the IRS assessed TFRPs totaling $146,682 against Chavis. In an effort to collect this liability, the IRS issued Chavis a Letter 3172, Notice of Federal Tax Lien Filing and Your Right to a Hearing. Chavis requested a collection due process (CDP) hearing, during which she sought to challenge her underlying liability, requested innocent spouse relief under I. R. C. § 6015, and asked for her account to be placed in 'currently not collectible' status and for the lien to be withdrawn. The IRS denied these requests, leading to Chavis's petition to the U. S. Tax Court.

Procedural History

The IRS issued a Letter 1153 to Chavis, which she received but did not challenge. After assessing TFRPs, the IRS issued a Letter 3172, prompting Chavis to request a CDP hearing. The settlement officer (SO) reviewed Chavis's requests during the CDP hearing and denied them, leading to a notice of determination sustaining the lien filing. Chavis timely petitioned the U. S. Tax Court, which reviewed the case under the summary judgment standard. The court applied an abuse of discretion standard of review to the IRS's actions since Chavis's underlying liability was not properly at issue.

Issue(s)

Whether Chavis, having received a prior opportunity to challenge her TFRP liability

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upon receipt of the Letter 1153, was entitled to challenge her underlying tax liability at the CDP hearing or in the U. S. Tax Court?

Whether Chavis was eligible for 'innocent spouse' relief under I. R. C. § 6015 for her TFRP liability?

Whether the IRS abused its discretion in sustaining the collection action against Chavis?

Rule(s) of Law

I. R. C. § 6330(c)(2)(B) states that a taxpayer may challenge the existence or amount of her underlying tax liability in a CDP case only if she did not receive any statutory notice of deficiency for such tax liability or did not otherwise have an opportunity to dispute it.

I. R. C. § 6672(a) provides that any person required to collect, truthfully account for, and pay over payroll taxes, who willfully fails to do so, shall be liable for a penalty equal to the total amount of the tax evaded or not accounted for and paid over.

I. R. C. § 6015 provides relief from joint and several liability on joint returns, but this relief applies only to liabilities shown on (or should have been shown on) a joint federal income tax return.

Holding

The U. S. Tax Court held that Chavis was not entitled to challenge her underlying TFRP liability at the CDP hearing or in the court because she had a prior opportunity to dispute it upon receipt of the Letter 1153. The court also held that Chavis was not eligible for 'innocent spouse' relief under I. R. C. § 6015 because her TFRP liability did not arise from any liability shown on a joint federal income tax return. Finally, the court held that the IRS did not abuse its discretion in sustaining the collection action against Chavis.

Reasoning

The court's reasoning was based on the statutory framework governing TFRPs and CDP hearings. The court noted that TFRPs are 'assessable penalties' not subject to deficiency procedures, but taxpayers have the opportunity to dispute their liability by appealing a Letter 1153. Since Chavis received the Letter 1153 and did not appeal, she was precluded from challenging her underlying liability at the CDP hearing. Regarding 'innocent spouse' relief, the court interpreted I. R. C. § 6015 to apply only to liabilities arising from joint federal income tax returns, not TFRPs. The court upheld the IRS's decision to deny CNC status and lien withdrawal, finding that the settlement officer properly calculated Chavis's ability to pay and that Chavis failed to provide evidence supporting her claims. The court emphasized that the IRS's actions were not arbitrary, capricious, or without sound basis in fact or law,

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thus not constituting an abuse of discretion.

Disposition

The U. S. Tax Court granted the IRS's motion for summary judgment, sustaining the notice of determination and upholding the tax lien filing against Chavis.

Significance/Impact

Chavis v. Commissioner reinforces the procedural limitations on challenging underlying liabilities in CDP hearings when a prior opportunity to dispute existed. It clarifies that 'innocent spouse' relief under I. R. C. § 6015 does not extend to TFRP liabilities, which are distinct from joint income tax liabilities. The decision also underscores the IRS's discretion in determining collection alternatives based on the taxpayer's financial situation and adherence to administrative procedures. This case is significant for practitioners and taxpayers dealing with TFRPs, as it highlights the importance of timely challenging proposed assessments and understanding the scope of relief available in CDP proceedings.

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