Castillo v. Commissioner, 160 T. C. No. 15 (U. S. Tax Ct. 2023)

In Castillo v. Commissioner, the U. S. Tax Court ruled that the IRS's position on the jurisdictional nature of the 30-day filing deadline for a collection due process (CDP) determination was substantially justified. This decision was based on pre-existing case law, even though the Supreme Court later ruled in Boechler that the deadline was nonjurisdictional. Consequently, the court denied the taxpayer's request for litigation costs under I. R. C. § 7430, highlighting the importance of substantial justification in tax litigation.

Parties

Josefa Castillo, as the Petitioner, sought review of a collection due process (CDP) determination by the Commissioner of Internal Revenue, as the Respondent. The case progressed from the U. S. Tax Court to the U. S. Court of Appeals for the Second Circuit and back to the Tax Court upon remand.

Facts

Josefa Castillo received a notice of deficiency for the 2014 tax year, which was mailed to her last known address but returned unclaimed. The IRS assessed a deficiency and penalty, and later issued a Notice of Federal Tax Lien (NFTL) filing. Castillo requested a CDP hearing, arguing that she was not liable for the deficiency because the income attributed to her was from a business she had sold. The IRS upheld the NFTL filing. Castillo filed a late petition for review with the Tax Court, which the IRS moved to dismiss for lack of jurisdiction due to the untimely filing. The Tax Court granted this motion, but the case was appealed and held in abeyance pending the Supreme Court's decision in Boechler, P. C. v. Commissioner. After Boechler, the Second Circuit vacated the Tax Court's dismissal and remanded the case. On remand, the IRS conceded the case, and Castillo sought litigation costs under I. R. C. § 7430.

Procedural History

The IRS moved to dismiss Castillo's petition for lack of jurisdiction due to the late filing, which the Tax Court granted. Castillo appealed to the U. S. Court of Appeals for the Second Circuit, which held the case in abeyance pending the Supreme Court's decision in Boechler, P. C. v. Commissioner. Post-Boechler, the Second Circuit vacated the Tax Court's dismissal and remanded the case. On remand, the IRS conceded the case in full. Castillo then moved for litigation costs under I. R. C. § 7430, which the Tax Court denied, finding the IRS's position substantially justified.

Issue(s)

Whether the IRS's position that the Tax Court lacked jurisdiction due to the untimely filing of Castillo's petition was substantially justified under I. R. C. § 7430?

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Rule(s) of Law

Under I. R. C. § 7430, a prevailing party may be awarded reasonable litigation costs if the position of the United States in the proceeding was not substantially justified. The IRS's position is considered substantially justified if it has a reasonable basis in law and fact. I. R. C. § 6330(d)(1) sets a 30-day deadline for filing a petition for review of a CDP determination, which was considered jurisdictional until the Supreme Court's decision in Boechler, P. C. v. Commissioner, 142 S. Ct. 1493 (2022).

Holding

The Tax Court held that the IRS's position was substantially justified because, at the time of the filing of Castillo's petition, the 30-day deadline under I. R. C. § 6330(d)(1) was considered jurisdictional based on existing case law. Therefore, Castillo was not treated as the prevailing party for the purpose of I. R. C. § 7430, and her motion for litigation costs was denied.

Reasoning

The Tax Court's reasoning focused on the substantial justification of the IRS's position. The court noted that before the Supreme Court's decision in Boechler, the 30-day deadline for filing a petition for review of a CDP determination was uniformly held to be jurisdictional by both the Tax Court and federal courts of appeals. The IRS's position was based on this established case law, which provided a reasonable basis in law and fact. The court cited cases like Kaplan v. Commissioner and Guralnik v. Commissioner to support this view. Furthermore, the court rejected Castillo's argument that the IRS's failure to follow Internal Revenue Manual (IRM) guidance created a presumption against substantial justification, as the IRM is not considered "applicable published guidance" under I. R. C. § 7430(c)(4)(B)(iv). The court's analysis highlighted the importance of the timing of legal positions in tax litigation and the impact of new Supreme Court decisions on previously settled law.

Disposition

The Tax Court denied Castillo's motion for reasonable litigation costs under I. R. C. § 7430.

Significance/Impact

This case underscores the doctrine of substantial justification under I. R. C. § 7430 and its application in tax litigation, particularly in light of evolving case law. The decision emphasizes that the IRS's position can be considered substantially justified based on the legal landscape at the time of the litigation, even if subsequent Supreme Court decisions alter that landscape. This ruling has practical implications for taxpayers seeking litigation costs, highlighting the need to consider the timing and basis of the IRS's legal positions. It also reflects the broader tension between

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taxpayer rights and the government’s ability to defend its positions based on established law at the time of litigation.

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