J. E. Ryckman v. Commissioner, 163 T. C. No. 3 (United States Tax Court 2024)

In a case of first impression, the U. S. Tax Court ruled it lacks jurisdiction to review the IRS's denial of a Collection Due Process (CDP) hearing for a taxpayer's Canadian tax liability under the Canada-U. S. Income Tax Treaty. The court interpreted the Treaty to require the U. S. to treat Canadian claims as U. S. claims with exhausted rights, thus precluding additional U. S. procedural protections. This decision highlights the interplay between treaties and domestic law, affirming that later-enacted statutes do not conflict with treaty obligations if properly harmonized.

Parties

J. E. Ryckman, the petitioner, sought to challenge the IRS's denial of her request for a Collection Due Process (CDP) hearing. The Commissioner of Internal Revenue, the respondent, moved to dismiss her petition for lack of jurisdiction. Throughout the proceedings, Ms. Ryckman was represented by David R. Jojola, Derek W. Kaczmarek, Nicholas Michaud, and Paul J. Vaporean, while the Commissioner was represented by Ping Chang and Derek S. Pratt.

Facts

Ms. Ryckman, a resident of Arizona, owed approximately $200,000 in Canadian taxes for the tax years 1993 and 1994. In 2017, the Canada Revenue Agency (CRA) sent a mutual collection assistance request (MCAR) to the IRS under the Canada-U. S. Income Tax Treaty. The MCAR stated that Ms. Ryckman's tax liabilities were "finally determined" under Canadian law, meaning all administrative and judicial rights to restrain collection had lapsed or been exhausted. The U. S. Competent Authority granted the MCAR, and the IRS subsequently filed a notice of federal tax lien (NFTL) against Ms. Ryckman. Despite being informed that she had no right to a CDP hearing, Ms. Ryckman requested one, which the IRS denied. She then petitioned the Tax Court for review of the denial.

Procedural History

The IRS filed a notice of federal tax lien (NFTL) against Ms. Ryckman on December 7, 2020, and notified her on January 25, 2021, that she was not entitled to a CDP hearing. Ms. Ryckman requested a CDP hearing on February 4, 2021, which the IRS denied on February 8, 2021. Ms. Ryckman filed her petition with the Tax Court on February 18, 2021, challenging the IRS's denial. The Commissioner moved to dismiss the petition for lack of jurisdiction, arguing that the Tax Court did not have authority to review the denial of a CDP hearing related to a Canadian tax liability under the Treaty.

Issue(s)

Whether the U. S. Tax Court has jurisdiction under I. R. C. § 6330(d)(1) to review the

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IRS’s denial of a Collection Due Process (CDP) hearing request regarding the collection of Canadian taxes pursuant to a mutual collection assistance request (MCAR) under the Canada-U. S. Income Tax Treaty?

Rule(s) of Law

The Tax Court has jurisdiction under I. R. C. § 6330(d)(1) to review a determination only if the IRS was subject to obligations imposed by I. R. C. § 6320 or § 6330 in making that determination. Under the Canada-U. S. Income Tax Treaty, Article XXVI A(2) defines a revenue claim as “finally determined” when all administrative and judicial rights of the taxpayer to restrain collection in the applicant State have lapsed or been exhausted. Article XXVI A(3) requires the requested State to collect the accepted revenue claim “as though such revenue claim were the requested State’s own revenue claim finally determined in accordance with the laws applicable to the collection of the requested State’s own taxes. ” Article XXVI A(5) states that nothing in the article shall be construed as creating or providing any rights of administrative or judicial review of the applicant State’s finally determined revenue claim by the requested State.

Holding

The Tax Court held that it lacked jurisdiction under I. R. C. § 6330(d)(1) to review the IRS’s denial of Ms. Ryckman’s request for a CDP hearing because the IRS was not subject to any obligations imposed by I. R. C. § 6320 or § 6330 with respect to her hearing request. The Court interpreted the Canada-U. S. Income Tax Treaty to require the U. S. to treat Ms. Ryckman’s Canadian tax liability as a U. S. tax assessment for which all rights to restrain collection, including CDP rights, had lapsed or been exhausted.

Reasoning

The Court’s reasoning was based on a detailed analysis of the Treaty provisions and their interaction with the CDP statutes. The Court noted that the Treaty’s requirement that a Canadian revenue claim be treated as “finally determined” under U. S. law meant that Ms. Ryckman had no additional rights to a CDP hearing in the U. S. The Court emphasized that the Treaty’s language precluded the creation of any new administrative or judicial rights in the U. S. for finally determined Canadian claims. The Court also considered the IRS’s post-ratification conduct, which initially suggested that CDP rights applied to treaty levies but later shifted to offering alternative administrative processes. The Court rejected the dissent’s argument that the Treaty should be read to allow for CDP rights, as this would create a conflict with the later-enacted CDP statutes, which the Court found could be harmonized with the Treaty’s provisions. The Court also addressed policy considerations, noting that allowing additional procedural rights in the U. S. would undermine the Treaty’s purpose of ensuring that collection assistance requests are made only after all remedies in the applicant State are exhausted.

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Disposition

The Tax Court dismissed Ms. Ryckman’s petition for lack of jurisdiction, as the IRS’s denial of her CDP hearing request was not a determination subject to judicial review under I. R. C. § 6330(d)(1).

Significance/Impact

This case is significant for its interpretation of the interaction between tax treaties and domestic law, particularly in the context of procedural rights. It clarifies that the U. S. must treat Canadian revenue claims accepted under the Treaty as U. S. tax assessments with exhausted rights, thereby foreclosing additional U. S. procedural protections. This ruling may impact future cases involving tax treaties and collection assistance requests, emphasizing the importance of harmonizing treaty obligations with domestic statutes. It also underscores the limited jurisdiction of the Tax Court and the need for taxpayers to exhaust all remedies in the applicant State before seeking relief in the U. S. under a treaty.

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