Carter v. Commissioner, 163 T. C. No. 6 (2024)

In Carter v. Commissioner, the U. S. Tax Court ruled that a taxpayer's bankruptcy filing does not automatically stay a whistleblower award case. The decision clarifies that only cases directly concerning the debtor's tax liability are subject to an automatic stay under 11 U. S. C. § 362(a)(8). This ruling distinguishes between the debtor's tax liability and unrelated whistleblower claims, impacting how such cases proceed in bankruptcy.

Parties

John F. Carter, Petitioner, filed a whistleblower award claim against the Commissioner of Internal Revenue, Respondent, in the United States Tax Court. Carter later filed for bankruptcy, becoming a debtor in that proceeding, while the Commissioner remained the respondent in the Tax Court case.

Facts

John F. Carter engaged in a transaction with a target taxpayer in 2012. In May 2015, Carter filed a whistleblower claim asserting that the target incorrectly reported the transaction. The IRS Whistleblower Office (WBO) referred the claim to an IRS operating division for examination. On January 24, 2022, the WBO issued a Final Determination denying Carter a whistleblower award, stating that the information provided did not result in the collection of any proceeds or an assessment related to the issues raised. Subsequently, on May 23, 2023, Carter filed for bankruptcy, and the IRS filed a proof of claim for Carter's unpaid tax for pre-Petition years.

Procedural History

Carter filed a Petition in the U. S. Tax Court to review the WBO's denial of his whistleblower award claim. After filing the Petition, Carter filed for bankruptcy on May 23, 2023. The IRS filed a proof of claim in Carter's bankruptcy case for unpaid tax for pre-Petition years. On August 12, 2024, Carter filed a Notice of Proceeding in Bankruptcy with the Tax Court. The Court ordered the parties to address whether the automatic stay under 11 U. S. C. § 362(a)(8) applied to the whistleblower case. The parties filed a joint status report, with Carter asserting that the automatic stay applied, while the Commissioner disagreed.

Issue(s)

Whether a taxpayer's bankruptcy filing automatically stays a whistleblower award case filed by the taxpayer pursuant to 11 U. S. C. § 362(a)(8)?

Rule(s) of Law

Bankruptcy Code section 362(a)(8) provides an automatic stay of Tax Court proceedings "concerning the tax liability of a debtor who is an individual for a

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taxable period ending before the date of the order for relief. ” The Tax Court has jurisdiction to determine whether a case is automatically stayed under this section. Prior Tax Court decisions have interpreted the automatic stay to apply only if the Tax Court proceeding possibly would affect the tax liability of the debtor in bankruptcy.

Holding

The U. S. Tax Court held that a taxpayer’s bankruptcy filing does not automatically stay a whistleblower award case under 11 U. S. C. § 362(a)(8). The Court determined that a whistleblower case does not concern the debtor’s tax liability, even if the claim involves the same transaction and facts as the debtor’s tax liability.

Reasoning

The Tax Court’s reasoning focused on the scope of its jurisdiction in whistleblower cases, which is limited to reviewing the IRS’s award determinations for abuse of discretion under I. R. C. § 7623(b). The Court emphasized that its review does not involve factual findings about the target taxpayer or the proper tax treatment of the transaction in question, and thus, cannot affect the debtor’s pre-Petition tax liability. The Court also considered Carter’s argument regarding potential setoff of the whistleblower award against his tax liability, concluding that the automatic stay against creditor setoff rights under 11 U. S. C. § 362(a)(7) is separate and does not necessitate a stay of the whistleblower case itself. The Court’s interpretation of the amended version of 11 U. S. C. § 362(a)(8) remained consistent with prior case law, focusing on the tax liability of the debtor as the criterion for applying the automatic stay. The Court also noted that the IRS must seek relief from stay in the bankruptcy court before exercising any right to set off a whistleblower award against the debtor’s unpaid tax liability.

Disposition

The U. S. Tax Court issued an order denying the automatic stay of the whistleblower award case, allowing the case to proceed despite Carter’s bankruptcy filing.

Significance/Impact

Carter v. Commissioner clarifies the application of the automatic stay under 11 U. S. C. § 362(a)(8) in the context of whistleblower award cases. The decision establishes that such cases do not concern the debtor’s tax liability and thus are not subject to an automatic stay triggered by a bankruptcy filing. This ruling has practical implications for whistleblowers who file for bankruptcy, as it allows their award claims to proceed independently of their bankruptcy proceedings. The decision also reinforces the limited jurisdiction of the Tax Court in whistleblower cases, focusing solely on the IRS’s award determinations and not on the underlying tax liability of the target taxpayer. Future courts may reference this case when addressing the

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interplay between bankruptcy and whistleblower award claims.

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