UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

Estate of Algerine Allen Smith v. Commissioner of Internal Revenue

429 F.3d 533 (5th Cir. 2005) · No. No. 04-60911 · Decided October 31, 2005

SUMMARY

The United States Court of Appeals for the Fifth Circuit held that the Tax Court lacked jurisdiction to review the Commissioner's offset of unpaid underpayment interest against an estate-tax overpayment. The court concluded that the Tax Court's overpayment judgment did not decide the estate's underpayment-interest liability and that the Commissioner properly exercised the offset authority provided by 26 U.S.C. § 6402(a). The Tax Court's judgment was vacated.

CASE DETAILS

COURT	United States Court of Appeals for the Fifth Circuit
WRITING FOR THE COURT	W. Eugene Davis; Edith H. Jones; Emilio M. Garza
JURISDICTION	Federal
DECIDED	October 31, 2005
DOCKET	No. 04-60911
DISPOSITION	vacated
PROCEDURAL POSTURE	The Commissioner appealed the United States Tax Court's order granting the Estate's motion under Tax Court Rule 260 and ordering a refund of the full tax overpayment, notwithstanding the Commissioner's offset of unpaid underpayment interest against that overpayment.
STANDARD OF REVIEW	De novo review applies to jurisdictional questions.
PRECEDENTIAL VALUE	Published precedential opinion
PARTIES	Commissioner of Internal Revenue v. Estate of Algerine Allen Smith, Deceased, James Allen Smith, Executor

TOPICS

tax court procedure · tax collection · statutory interpretation · appellate procedure

PRACTICE AREAS

federal taxation · estate tax · tax litigation

QUESTIONS PRESENTED

1. Whether the Tax Court had jurisdiction under 26 U.S.C. § 6512(b)(2) to order a refund of the entire determined tax overpayment after the Commissioner offset part of it against assessed but unpaid underpayment interest.
2. Whether an overpayment judgment necessarily includes the taxpayer's underpayment interest liability.
3. Whether 26 U.S.C. § 6512(b)(4) barred the Tax Court from reviewing the Commissioner's offset under 26 U.S.C. § 6402(a).

HOLDINGS

1. An overpayment determination does not always include any underpayment interest due on the tax.
2. Because the Rule 155 stipulation and judgment did not determine the Estate's underpayment-interest liability, the Tax Court exceeded its jurisdiction under 26 U.S.C. § 6512(b)(2) by ordering the Commissioner to refund the full tax overpayment.
3. The Commissioner properly exercised authority under 26 U.S.C. § 6402(a) to offset the unpaid underpayment interest against the Estate's tax overpayment, and the Tax Court lacked jurisdiction to review that offset under 26 U.S.C. § 6512(b)(4).

KEY QUOTATIONS

> *"we conclude that the Tax Court erred in holding that an overpayment of tax always includes any underpayment interest due thereon."* (429 F.3d at 537)

> *"The Commissioner properly exercised his authority under § 6402 to offset the unpaid interest against the overpayment of tax."* (429 F.3d at 540)

FACTUAL BACKGROUND

Algerine Allen Smith died on November 16, 1990, and her Estate paid estate tax and later litigated a deficiency assessment. Following remand, the parties stipulated to a Rule 155 computation reflecting an estate-tax liability of $385,747 and an overpayment of $238,847, while interest computations were marked for information only and did not resolve the Estate's final underpayment-interest liability. The Commissioner refunded part of the overpayment and credited the remainder against $64,996 in assessed but unpaid underpayment interest. The Tax Court ordered the Commissioner to refund the full overpayment, leading to this appeal.

PROCEDURAL HISTORY

The Estate petitioned the Tax Court for redetermination of an estate-tax deficiency. After prior appellate proceedings and remand, the parties submitted a Rule 155 computation, and the Tax Court entered judgment determining an estate-tax overpayment of $238,847. The Commissioner refunded part of the overpayment and offset the remainder against assessed but unpaid underpayment interest. The Tax Court later ordered a full refund under Rule 260; the Commissioner appealed.

DISPOSITION

vacated

CASES CITED

- Estate of Smith v. Commissioner, 198 F.3d 515 (5th Cir. 1999)
- Estate of Smith v. Commissioner, 82 T.C.M. 909, 2001 WL 1505917 (2001)
- Estate of Smith v. Commissioner, 54 Fed. Appx. 413 (5th Cir. 2002)
- Treaty Pines Investments Partnership v. Commissioner, 967 F.2d 206, 210 (5th Cir. 1992)
- Commissioner v. McCoy, 484 U.S. 3, 7 (1987)
- Savage v. Commissioner, 112 T.C. 46, 1999 WL 71571 (1999)
- Estate of Baumgardner v. Commissioner, 85 T.C. 445, 1985 WL 15391 (1985)