1946 Tax Ct. Memo LEXIS 112

A taxpayer's reliance on a professional to file tax returns does not automatically constitute reasonable cause for failing to file a required return, especially when the taxpayer fails to provide sufficient information or the professional is unfamiliar with the specific requirements.

Summary

Cedarburg Canning Co. failed to file a personal holding company return, relying on their attorney and accountant. The Tax Court found that this reliance did not constitute reasonable cause for the failure, and thus upheld the delinquency penalty imposed by the Commissioner. The company's president was unaware of the company's potential classification as a personal holding company, and the accountant was not provided with sufficient information to make an informed decision. The court emphasized that ignorance of the law or reliance on an insufficiently informed agent does not excuse the failure to file required tax returns.

Facts

Cedarburg Canning Co.'s income was derived primarily from interest and dividends on securities. More than 50% of its stock was owned by a single individual, Coe. The company filed Form 1120 (corporate income tax return) but failed to file Form 1120-H (personal holding company return). Coe, the president and sole stockholder, consulted an attorney and then engaged an accountant to prepare the tax return, relying completely on them. Coe was not aware of any special classification the corporation might belong to. The accountant was "briefly informed" about the corporate structure but was incorrectly told that no individual owned more than 50% of the voting stock.

Procedural History

The Commissioner determined that Cedarburg Canning Co. was liable for personal holding company surtax and imposed a delinquency penalty for failure to file Form 1120-H. The Tax Court reviewed the Commissioner's determination.

Issue(s)

Whether the petitioner's reliance on an attorney and an accountant to prepare its tax returns constituted reasonable cause for its failure to file a personal holding company return, thus excusing it from the delinquency penalty.

Holding

No, because the company's president was unaware of the potential personal holding company classification, and the accountant was not given accurate or complete information about the company's ownership structure. Reliance on a professional,

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without providing sufficient information or ensuring their competence in the specific area of tax law, does not constitute reasonable cause.

Court’s Reasoning

The court reasoned that Cedarburg Canning Co.’s failure to file a personal holding company return was not due to reasonable cause. The court distinguished this case from situations where a taxpayer, after considering all relevant factors and consulting counsel, reasonably concludes that they are not a personal holding company. Here, the president was unaware of the issue, and the accountant was either insufficiently informed or unfamiliar with the requirements. The court stated that the reasons advanced by the petitioner “merely reduce themselves to a plea of ignorance of the law” or reliance on an agent without providing sufficient information. The court cited precedent that a Form 1120 return is inadequate as a substitute for Form 1120-H. They distinguished the case from *Germantown Trust Co. v. Commissioner*, 309 U.S. 304, noting that Cedarburg was obligated to file *two* returns, not merely the wrong form.

Practical Implications

This case underscores that taxpayers cannot blindly rely on professionals without actively participating in the tax preparation process. Taxpayers have a duty to provide complete and accurate information to their tax advisors. It clarifies that ignorance of the law, even when relying on an agent, is generally not an excuse for failing to comply with tax obligations. Attorneys and accountants must thoroughly investigate a client’s situation to ensure compliance with all applicable tax laws, including obscure provisions like the personal holding company tax. Subsequent cases often cite this case to reinforce the principle that reliance on a professional is not a guaranteed safe harbor from penalties, especially if the taxpayer contributed to the error by withholding information or failing to inquire adequately.

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