16 T.C. 1275 (1951)

The Current Tax Payment Act of 1943 is constitutional and does not violate the Fifth Amendment; taxpayers are not deprived of property without due process when the Act is applied to their tax liability.

Summary

Samuel Hirsch challenged the constitutionality of the Current Tax Payment Act of 1943, arguing it deprived him of property without due process. The Tax Court rejected Hirsch's broad challenge, holding that the Act, specifically Section 6, did not violate the Fifth Amendment. The court found that the Act's provisions for forgiving a portion of 1942 taxes while requiring current payments did not constitute double taxation or an arbitrary deprivation of property. The court also addressed Hirsch's claim that a deduction was improperly disallowed, finding no error in the Commissioner's handling of the deduction.

Facts

Samuel Hirsch, an attorney, paid $11,281.74 in 1943 to settle a lawsuit concerning attorney's fees claimed by a former associate, Aaron Schanfarber, for services rendered between 1932 and 1936. Hirsch deducted this amount on both his 1942 and 1943 income tax returns. The Commissioner of Internal Revenue allowed the deduction for 1943 but disallowed it for 1942, citing that Hirsch used the cash receipts and disbursements method of accounting. Hirsch challenged the Commissioner's determination, arguing that the Current Tax Payment Act of 1943 was unconstitutional and that his 1942 income should be reduced by the payment to Schanfarber.

Procedural History

The Commissioner determined a deficiency in Hirsch's income tax and victory tax for 1943. Hirsch petitioned the Tax Court, contesting the deficiency and challenging the constitutionality of the Current Tax Payment Act of 1943. The Tax Court upheld the Commissioner's determination, finding no merit in Hirsch's arguments.

Issue(s)

1. Whether the Current Tax Payment Act of 1943, particularly Section 6, is unconstitutional as a violation of the Fifth Amendment.

2. Whether the Commissioner erred in not reducing Hirsch's 1942 income by the $11,281.74 payment made to Schanfarber in 1943.

Holding

1. No, because Section 6 of the Current Tax Payment Act, as applied to Hirsch's tax

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liability for 1942 and 1943, does not violate the Fifth Amendment.

2. No, because Hirsch failed to prove that the payment to Schanfarber represented a reduction of fees for 1942, and he used the cash method of accounting.

Court's Reasoning

The Tax Court reasoned that the Current Tax Payment Act of 1943 was designed to put taxpayers on a current payment basis while providing relief from paying two full years' taxes in one year. The court emphasized that the Act's provisions for forgiving a portion of the 1942 tax liability did not constitute an unconstitutional deprivation of property. The court stated that the Act was a relief provision and the petitioner was relieved from paying $4,234.75 of the tax computed on net income realized in 1943. Citing William F. Knox, 10 T. C. 550, the court underscored Congress's intent to eliminate the payment of two full years' taxes in one year. As for the deduction, the court found that since Hirsch used the cash method of accounting, the deduction was properly taken in 1943, when the payment was made, not in 1942. The court emphasized that its consideration was confined to the application of Section 6 to the petitioner's 1943 tax liability.

Practical Implications

This case affirms the constitutionality of the Current Tax Payment Act of 1943 and clarifies the proper application of its relief provisions. It reinforces the principle that tax laws are presumed constitutional and that taxpayers bear a heavy burden to prove otherwise. For tax practitioners, the case highlights the importance of understanding the mechanics of tax legislation designed to transition tax payment systems. It also serves as a reminder of the significance of adhering to one's chosen accounting method (cash versus accrual) when determining the timing of deductions. Subsequent cases may cite Hirsch to underscore the broad power of Congress to enact tax laws and the limited scope of judicial review in constitutional challenges to such laws.

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