18 T.C. 144 (1952)

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A taxpayer’s reliance on advice from an unqualified advisor, or a generalized claim of insufficient funds, does not constitute “reasonable cause” to excuse the failure to file a declaration of estimated income tax under Section 294(d)(1)(A) of the Internal Revenue Code.

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Summary

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Rene Bouche, a painter, was assessed a penalty for failing to file a declaration of estimated tax for 1947. Bouche argued that he relied on his accountant’s advice, who in turn based his advice on a phone call with an unidentified employee at the IRS, and that he lacked sufficient funds. The Tax Court held that Bouche’s reliance on an unqualified advisor and a general claim of lacking funds did not constitute reasonable cause for failing to file the declaration, thus upholding the penalty. This case clarifies the standard for “reasonable cause” in the context of failing to file estimated taxes, emphasizing the taxpayer’s responsibility to ensure their advisor is competent and that financial difficulties alone do not excuse non-compliance.

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Facts

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Rene Bouche, a French artist residing in the U.S., failed to file a declaration of estimated tax for the year 1947. He had filed such declarations for 1945 and 1946. Bouche claimed he relied on his accountant’s advice, who had spoken with an unidentified IRS employee who allegedly stated that filing a declaration without payment would be insufficient and that paying back taxes was preferable. He also cited financial difficulties due to high medical expenses, the purchase of a home, and related furnishings. His income for 1947 was approximately $27,000.

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Procedural History

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The Commissioner of Internal Revenue assessed a penalty against Bouche for failing to file the declaration of estimated tax. Bouche challenged the deficiency in the Tax Court, arguing that his failure was due to reasonable cause and not willful neglect.

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Issue(s)

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Whether the petitioner’s failure to file a declaration of estimated tax for 1947 was due to “reasonable cause and not to willful neglect” as defined under Section 294(d)(1)(A) of the Internal Revenue Code.

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Holding

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No, because the taxpayer’s reliance on advice from an unqualified advisor and a general claim of insufficient funds do not constitute reasonable cause for failing to file a declaration of estimated income tax.

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Court’s Reasoning

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The Tax Court reasoned that filing a declaration of estimated tax is a mandatory requirement, similar to filing final income tax returns. The court stated that the taxpayer’s reasons for failing to file were unconvincing noting, “Many, if not most, taxpayers have, at times, found themselves without ready cash to pay their taxes. This fact is not reasonable cause for not filing the estimate and paying the tax due thereon.” The court also questioned the competence of Bouche’s accountant, stating,

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