25 T.C. 102 (1955)

Failure to file a declaration of estimated tax does not qualify for exemption from penalties simply because the taxpayer's principal income source is a partnership on a calendar year basis; there must be demonstrable reasonable cause for the failure.

Summary

The United States Tax Court addressed whether the Commissioner of Internal Revenue correctly assessed penalties for the petitioners' failure to file declarations of estimated tax. The petitioners, partners in a construction company, argued that because their partnership's taxable year ended on December 31st, they lacked the knowledge to reasonably expect earnings during the year, thus excusing them from filing estimated taxes. The court rejected this argument, finding that the petitioners' income from the partnership was substantial enough that they could reasonably expect to meet the threshold for filing. The court also held that neither ignorance of the law nor reliance on erroneous advice constituted reasonable cause to avoid the penalties.

Facts

The petitioners, Howard, Lester, Walter, Harold, and Alex Fischer, and their respective spouses, were partners in Fischer Construction Company and Fischer Brothers. The partnerships used an accrual basis of accounting and a calendar year. The petitioners filed joint federal income tax returns for the year 1951, but none filed a declaration of estimated tax for that year. Each of the husbands were active equal partners, with income from the partnerships being substantial in the preceding years. The Commissioner determined deficiencies in income tax and penalties under section 294 (d) (1) (A) for the failure to file estimated tax.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in income tax for 1951 and assessed additions to tax under section 294 (d) (1) (A). The petitioners contested the additions to tax in the U.S. Tax Court. The Tax Court consolidated the five cases and decided in favor of the Commissioner.

Issue(s)

1. Whether the Commissioner erred in determining additions to tax under section 294 (d) (1) (A) for the petitioners' failure to file declarations of estimated tax.

Holding

1. No, because the petitioners failed to demonstrate that their failure to file declarations of estimated tax was due to reasonable cause and not to willful neglect.

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Court’s Reasoning

The court’s reasoning focused on whether the taxpayers had “reasonable cause” for not filing. The court stated that the statutory provisions requiring declarations of estimated tax are

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