28 T.C. 687 (1957)

The Tax Court upheld additions to tax for failure to file declarations of estimated tax and for substantial underestimation, finding no reasonable cause for the taxpayer's omissions, and that the statute of limitations had not run.

Summary

The petitioners, Harold and Dorothy Marbut, contested deficiencies assessed by the Commissioner of Internal Revenue related to additions to their income tax for 1950 and 1951. The Commissioner asserted additions to tax under Internal Revenue Code § 294 for failure to file declarations of estimated tax and for substantial underestimation of estimated tax. The Marbuts argued that the Commissioner should be estopped from assessing these deficiencies, that their failure to file was excusable, and that the statute of limitations had run. The Tax Court ruled in favor of the Commissioner, finding that the Marbuts' failure to file declarations of estimated tax was not due to reasonable cause, and that the statute of limitations was extended by the Marbuts' consent.

Facts

Harold and Dorothy Marbut, husband and wife, filed joint income tax returns for 1950 and 1951, disclosing significant tax liabilities that they paid on time. They did not file declarations of estimated tax for those years. Petitioners' sole source of income for the years 1947 to 1951, inclusive, was Harold Marbut's distributive share of the earnings of Marbut Milling Co., Ltd. In January 1954, the IRS sent the Marbuts a consent form (Form 872) to extend the statute of limitations for assessment of taxes for 1950, which they duly executed and returned. On September 24, 1954, the Commissioner mailed the Marbuts a notice of deficiencies in additions to tax for the years in question. The Marbuts stated that the primary reason they did not file the declarations was due to a lack of cash, and they also claimed reliance on advice from an accountant that the IRS did not strictly enforce the filing requirement.

Procedural History

The Commissioner determined deficiencies in the Marbuts' income tax for 1950 and 1951, specifically additions to tax for failing to file estimated tax declarations, and for underestimation of tax. The Marbuts petitioned the Tax Court to challenge the Commissioner's determination, arguing that the Commissioner was estopped, that they had reasonable cause for not filing, and that the statute of limitations had expired. The Tax Court upheld the Commissioner's determination.

Issue(s)

1. Whether the Commissioner was estopped from assessing the deficiencies.

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2. Whether the Marbuts had reasonable cause for their failure to file declarations of estimated tax, thus avoiding the addition to tax under I.R.C. § 294(d)(1)(A).

3. Whether the statute of limitations barred the Commissioner from assessing the deficiencies.

4. Whether the Marbuts were liable for both the penalty for failing to file a declaration of estimated tax and for underestimating the tax.

Holding

1. No, because the record did not support the contention that the Commissioner should be estopped.

2. No, because the lack of funds and reliance on an accountant's advice did not constitute reasonable cause under the law.

3. No, because the consent form the Marbuts signed extended the statute of limitations, and the notice of deficiency was timely.

4. Yes, the Tax Court found support for the Commissioner's determination based on its prior holding in *G. E. Fuller*, 20 T.C. 308 (1953).

Court's Reasoning

The court addressed the taxpayer's arguments in order. First, the court found no basis for estoppel. Second, the court rejected the Marbuts' claim of reasonable cause for failing to file declarations of estimated tax. The court cited precedent holding that lack of funds is not reasonable cause. The court also dismissed the argument that the accountant's advice provided reasonable cause, stating, "Reliance upon rumor that the Commissioner would not enforce the law amounts to willful neglect." Third, the court held that the statute of limitations did not bar assessment because the consent form signed by the Marbuts extended the period for assessment beyond the normal deadline. The court cited prior case law to support the proposition that an addition to tax is part of the tax for assessment purposes. Finally, the court determined that the Marbuts were properly assessed penalties under both subsections of I.R.C. § 294. The court relied upon its decision in *G.E. Fuller* to support the conclusion that penalties could be applied under both provisions of the code. The court concluded: "We are of the opinion and have so found as a fact that petitioners had no reasonable cause for their failure to file declarations of estimated tax for the years 1950 and 1951 and that such failure was due to willful neglect."

Practical Implications

This case emphasizes the strict requirements for filing estimated tax declarations and the limited circumstances in which failure to file can be excused. Taxpayers are

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generally expected to understand and comply with tax laws. Reliance on advice, even from an accountant, is not a defense if it contradicts the clear requirements of the law. The case illustrates that consents to extend the statute of limitations can be critically important for both taxpayers and the government. It also provides clear guidance on the stacking of penalties.

Meta Description

The case clarifies the requirements for filing estimated tax declarations, the limitations on defenses for non-filing, and the impact of consents on the statute of limitations.

Tags

Marbut v. Commissioner, Tax Court, 1957, Estimated Tax, Statute of Limitations, Penalty, Reasonable Cause

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