33 T.C. 298 (1959)

An accord and satisfaction, which would preclude the Commissioner from determining a tax deficiency, requires a formal written agreement or a legally binding compromise, not merely an informal understanding or payment of an outstanding balance.

Summary

The case involved a dispute over tax deficiencies and penalties for the years 1952 and 1954. The petitioners, a husband and wife, argued that an agreement reached with the IRS in 1954 constituted an "accord and satisfaction" that prevented the assessment of additional taxes for 1952. They also contested penalties for 1954. The Tax Court ruled against the petitioners on both issues, holding that the informal agreement did not meet the requirements for accord and satisfaction and that the penalty was justified. The court underscored that settlements of tax liabilities must adhere to formal statutory procedures to be binding.

Facts

The petitioners filed joint income tax returns for 1952 and 1954. In 1954, they owed unpaid taxes from 1952, and the IRS placed a lien on their property. Following a conference, they paid the outstanding balance and the lien was discharged. The petitioners then agreed to make monthly payments toward their 1953 and 1954 tax liabilities. Later, the IRS assessed deficiencies and penalties for both years. The petitioners claimed the 1952 liability was settled by accord and satisfaction and that they were assured that there would be no penalties for 1954.

Procedural History

The case was brought before the United States Tax Court after the Commissioner of Internal Revenue determined deficiencies in the petitioners' income tax and additions thereto for the years 1952 and 1954. The petitioners challenged these determinations, arguing an accord and satisfaction existed for 1952 and disputing penalties for 1954. The Tax Court held a hearing and issued a decision against the petitioners.

Issue(s)

1. Whether an "accord and satisfaction" between the petitioners and the IRS with respect to the petitioners' income tax liability for 1952 precluded the assessment of additional taxes for that year.

2. Whether the petitioners were relieved of liability for the addition to tax for failure to file a declaration of estimated tax for 1954 because of alleged representations made by or in the presence of an assistant district director of internal revenue.

Holding

1. No, because the informal agreement and payment did not constitute a legally binding "accord and satisfaction" under the law.

2. No, because the court found that the petitioners failed to prove that any specific assurances were made by the IRS regarding the penalties.

Court's Reasoning

The Court found that no formal agreement or compromise was established that would constitute an accord and satisfaction. The court stated, "No written agreement evidencing 'an accord and satisfaction' was ever drafted or signed by the parties, nor was there any exchange of correspondence which might be interpreted as such an agreement." The court further held that informal agreements by IRS agents were not binding on the Commissioner. The court noted that the Commissioner's action in determining the deficiency is presumed to be correct, and the burden is on the petitioner to prove otherwise. It held that the petitioners had not met their burden to show that any consideration was provided in exchange for the alleged accord and satisfaction.

Regarding the penalties, the court emphasized that the petitioners bore the burden of proving that the IRS had made specific assurances about the penalties. The court stated, "the burden of proof in this respect was on petitioners, and by reason of their failure to meet that burden we have found as a fact that no such representations were made."

Practical Implications

This case underscores the necessity of adhering to formal, written procedures when settling tax liabilities. Lawyers should advise clients that informal agreements with IRS agents are unlikely to be binding. Any settlements or compromises must be documented correctly and must follow the statutory methods. The case highlights that the burden of proof rests with the taxpayer to demonstrate the existence of an accord and satisfaction or any other agreement that modifies their tax liability. Furthermore, the case shows that statements or representations by IRS agents, absent formal documentation, are insufficient to create a binding agreement with the IRS. Later cases considering this decision will likely focus on the specific requirements of the written compromise and formal processes under relevant sections of the Internal Revenue Code.

