33 T.C. 1071 (1960)

The penalty for underpayment of estimated taxes under 26 U.S.C. § 6654(a) is mandatory unless specific statutory exceptions are met, and extenuating circumstances are not a valid defense.

Summary

The taxpayers, Barney and Birdie Ruben, faced a tax deficiency solely due to a penalty for underpayment of estimated income tax under Section 6654(a) of the 1954 Internal Revenue Code. The Rubens underestimated their 1955 income tax because they did not account for substantial interest income from redeemed U.S. bonds. Although their estimated tax declaration covered their usual income, it fell slightly short of the 70% threshold required to avoid the penalty under the statutory exceptions. The Tax Court upheld the Commissioner's determination, stating that Section 6654(a) is mandatory and does not allow for consideration of extenuating circumstances.

Facts

Barney and Birdie Ruben filed a declaration of estimated income tax for 1955, anticipating tax obligations based on Barney's regular salary and dividends.

During 1955, the Rubens received substantial additional income from the redemption of $400,000 par value of U.S. E, F, and G bonds, resulting in over $136,000 in interest income.

This significant interest income was not factored into their estimated tax declaration.

Consequently, the tax paid through their declaration and withholding was approximately 2.2% less than the amount needed to meet the exception in Section 6654(d)(1)(C) and avoid the underpayment penalty.

Procedural History

The Commissioner of Internal Revenue determined a deficiency against Barney and Birdie Ruben for 1955, consisting solely of an addition to tax under 26 U.S.C. § 6654(a).

The taxpayers petitioned the Tax Court to contest this deficiency.

The Commissioner moved for judgment on the grounds that the petition failed to state a cause of action, essentially arguing that even if the facts in the petition were true, they would not legally excuse the penalty.

The Tax Court heard arguments on the Commissioner's motion.

© 2025 SCOTUSreports.com. All rights reserved.

Issue(s)

1. Whether the penalty for underpayment of estimated tax under 26 U.S.C. § 6654(a) is mandatory when the taxpayer fails to meet any of the statutory exceptions, regardless of extenuating circumstances.

Holding

1. Yes, because Section 6654(a) is mandatory and imposes the addition to tax unless one of the specific exceptions in subsection (d) applies. Extenuating circumstances are irrelevant under the statute.

Court’s Reasoning

The Tax Court focused on the plain language of 26 U.S.C. § 6654(a), which states that there shall be an addition to tax

© 2025 SCOTUSreports.com. All rights reserved.