Resnick v. Commissioner, 63 T. C. 524 (1975)

Innocent spouse relief under section 6013(e) does not apply to tax deficiencies resulting from overstated deductions, such as cost of goods sold, but only to omissions from gross income.

Summary

In Resnick v. Commissioner, the Tax Court ruled that Ann B. Resnick, who filed a joint tax return with her former husband, was not eligible for innocent spouse relief under section 6013(e) of the Internal Revenue Code. The deficiency arose from her husband's overstatement of cost of goods sold in his coin dealing business, not from an omission of gross income. The court emphasized that section 6013(e) applies only to omissions from gross income, not to overstated deductions. This decision clarifies the scope of innocent spouse relief, limiting it strictly to situations involving omitted income, and has significant implications for how joint filers manage their tax liabilities.

Facts

Ann B. Resnick and her former husband, Errol B. Resnick, filed a joint federal income tax return for 1968. Errol operated a coin dealing business, and the return reported a gross profit based on sales and cost of goods sold. The IRS determined a deficiency due to an overstatement of the cost of goods sold by Errol, which led to an understatement of taxable income. Ann argued for relief as an innocent spouse under section 6013(e).

Procedural History

The IRS issued a statutory notice of deficiency in October 1971, asserting a significant tax deficiency and a fraud penalty against the Resnicks. Ann B. Resnick petitioned the U. S. Tax Court, seeking relief from joint and several liability under section 6013(e). The court, after considering the arguments, rendered its decision on February 3, 1975.

Issue(s)

1. Whether section 6013(e) of the Internal Revenue Code applies to relieve Ann B. Resnick from tax liability when the deficiency results from a decrease in cost of goods sold rather than from an omission of gross income?

Holding

1. No, because section 6013(e) applies only to tax deficiencies resulting from omissions from gross income, not to deficiencies resulting from overstated deductions such as cost of goods sold.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court’s decision was based on the plain language and legislative history of section 6013(e), which limits innocent spouse relief to situations involving omissions from gross income. The court cited section 6501(e)(1)(A)(i), which defines gross income for these purposes as the total amount received or accrued from sales before any deductions, such as cost of goods sold. The court noted that an overstatement of cost of goods sold is a reduction from gross income, not an omission of it. Therefore, Ann Resnick did not qualify for relief under section 6013(e). The court also referenced prior cases and regulations, such as section 1. 6013-5(d) of the Income Tax Regulations, which further support the limitation of section 6013(e) to omissions of income.

Practical Implications

This decision has significant implications for joint filers seeking innocent spouse relief. It underscores the importance of understanding the specific conditions under which such relief is available, particularly that it applies only to omitted income, not to overstated deductions. Tax practitioners must advise clients accordingly, ensuring that they are aware of the limitations of section 6013(e). Businesses and individuals involved in joint filings need to carefully review their tax returns to avoid overstatements of deductions that could lead to deficiencies without the possibility of innocent spouse relief. Subsequent cases, such as Norman Rodman, have followed this precedent, reinforcing the narrow scope of section 6013(e).

© 2025 SCOTUSreports.com. All rights reserved.