T.C. Memo. 1976-290

A prior Tax Court decision regarding withholding tax liability for specific calendar years does not preclude the IRS from issuing a subsequent deficiency notice for corporate income tax for a fiscal year overlapping with those calendar years, as these represent distinct tax liabilities arising from separate taxable events and returns.

Summary

S-K Liquidating Co. (S-K) argued that a prior Tax Court decision concerning its withholding tax liabilities for calendar years 1968 and 1969 prevented the IRS from issuing a later deficiency notice for S-K's corporate income tax for the fiscal year ending October 31, 1969. S-K contended that the second notice violated the prohibition against multiple deficiency notices for the same taxable year and was barred by res judicata. The Tax Court disagreed, holding that the corporate income tax and withholding tax liabilities were distinct. The court reasoned that these liabilities arose from different returns, taxable periods, and legal bases, thus the earlier decision did not preclude the later deficiency notice.

Facts

S-K Liquidating Co. received two deficiency notices from the IRS. The first notice, issued in April 1972, concerned S-K's failure to withhold taxes under Section 1441 for calendar years 1968 and 1969. S-K petitioned the Tax Court, and the case was settled with a stipulated liability. A decision was entered on March 15, 1973. The second deficiency notice, issued in December 1973, pertained to S-K's corporate income tax for the fiscal year ended October 31, 1969. This deficiency arose from an alleged undervalue sale of land to a related company, requiring a Section 482 allocation to increase S-K's income.

Procedural History

1. April 7, 1972: IRS issued the first deficiency notice to S-K for withholding tax liabilities for calendar years 1968 and 1969.

2. S-K petitioned the Tax Court regarding the first notice.

3. March 15, 1973: Tax Court entered a stipulated decision for the withholding tax case.

4. December 13, 1973: IRS issued the second deficiency notice to S-K for corporate income tax for the fiscal year ended October 31, 1969.

5. S-K moved for judgment on the pleadings in Tax Court, arguing the second deficiency was precluded by the first decision.

© 2025 SCOTUSreports.com. All rights reserved.

Issue(s)

1. Whether Section 6212(c) of the Internal Revenue Code, which prohibits additional deficiency notices for the same taxable year after a Tax Court petition, bars the second deficiency notice for corporate income tax when a prior notice addressed withholding tax for overlapping calendar years.

2. Whether the principle of res judicata prevents the IRS from asserting the second deficiency notice for corporate income tax due to the prior Tax Court decision on withholding tax liability.

Holding

1. No, Section 6212(c) does not bar the second deficiency notice because the withholding tax liability and the corporate income tax liability, though both under Subtitle A (Income Tax), are considered distinct taxes arising from different taxable events and returns.

2. No, res judicata does not apply because the two deficiency notices concern different tax liabilities, taxable periods, and legal claims. The prior decision on withholding tax does not bar a subsequent determination of corporate income tax liability.

Court's Reasoning

The court reasoned that Section 6212(c) aims to prevent repetitive litigation for the same tax and taxable year. While both withholding tax and corporate income tax fall under Subtitle A, they are fundamentally different. Corporate income tax (Chapter 1) is levied on a corporation's income based on its fiscal year return (Form 1120). Withholding tax (Chapter 3), under Sections 1441 and 1461, is a separate liability imposed on withholding agents for taxes on payments to nonresident aliens, reported on Form 1042 for calendar years.

The court emphasized that the two deficiency notices were based on different returns, covered different taxable periods (fiscal year vs. calendar years), and originated from taxes enacted for different purposes. Drawing an analogy to transferee liability, the court stated, "The two liabilities are separate and distinct, arise from different states of fact and are based upon entirely different theories. They present two distinct causes of action upon either of which it would naturally be assumed proceedings might be maintained independently." (citing *Edward Michael, 22 B.T.A. 639, 642 (1931)*).

Regarding res judicata, the court cited *Commissioner v. Sunnen, 333 U.S. 591 (1948)*, noting that income taxes are annual, and each year creates a separate cause of action. Here, the corporate income tax deficiency related to S-K's fiscal year income, while the withholding tax decision concerned calendar years and payments to nonresident aliens. Therefore, the issues and taxable periods were distinct, and

© 2025 SCOTUSreports.com. All rights reserved.

res judicata did not apply.

Practical Implications

S-K Liquidating Co. clarifies that the prohibition against multiple deficiency notices for the same taxable year is not absolute and depends on the nature of the tax liability. It establishes that different types of tax liabilities, even within the same subtitle of the tax code and overlapping tax periods, can be subject to separate deficiency notices and Tax Court proceedings. This case is important for understanding the scope of Section 6212(c) and the application of res judicata in tax litigation. It highlights that the IRS is not barred from issuing multiple deficiency notices to the same taxpayer for the same overarching tax year if those notices address fundamentally different tax obligations arising from distinct taxable events and reporting requirements. Legal practitioners must analyze the specific nature of each tax liability and the corresponding taxable events when assessing the preclusive effect of prior tax decisions or the validity of multiple deficiency notices.

© 2025 SCOTUSreports.com. All rights reserved.