Hatfield v. Commissioner, 68 T. C. 895 (1977)

Federal Reserve notes are considered legal tender and must be reported as income; a tax return that fails to disclose income is not valid.

Summary

In Hatfield v. Commissioner, the petitioner filed a Form 1040 for 1974 claiming Federal Reserve notes were accounts receivable and not reportable as income, and refused to disclose any income, citing self-incrimination. The Tax Court held that Federal Reserve notes are legal tender and must be reported as income. The court also ruled that a Form 1040 that does not disclose income is not a valid return, upholding the Commissioner's determination of a deficiency and additions to the tax for failure to file and negligence.

Facts

Lou M. Hatfield, a resident of Dallas, Texas, filed a Form 1040 for 1974 but did not disclose any income, writing "Object Self Incrimination" in response to income-related questions. Her Form W-2 showed wages of $6,958. 71. Hatfield argued that Federal Reserve notes were accounts receivable and not reportable as income until paid. She relied on a document from the United States Taxpayers Union and did not provide evidence to challenge the Commissioner's determination of her income.

Procedural History

The Commissioner issued a notice of deficiency determining Hatfield's income based on her Form W-2 and imposed additions to the tax for late filing, negligence, and underpayment of estimated tax. Hatfield filed a petition with the United States Tax Court, which upheld the Commissioner's determinations and ruled against Hatfield.

Issue(s)

1. Whether Federal Reserve notes are accounts receivable or must be reported as income.
2. Whether a Form 1040 that does not disclose income constitutes a valid tax return.

Holding

1. No, because Federal Reserve notes are legal tender and must be reported as income in accordance with a taxpayer's method of accounting.
2. No, because a Form 1040 that does not disclose income is not a valid return under section 6012 of the Internal Revenue Code.

Court's Reasoning

The court rejected Hatfield's argument that Federal Reserve notes were accounts

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receivable, citing numerous cases that have uniformly held Federal Reserve notes to be legal tender, reportable as income. The court emphasized that Federal Reserve notes are used as currency, not held as receivables, and noted Hatfield's likely use of them for purchases. Regarding the validity of the return, the court relied on established law that a Form 1040 must disclose income to be considered a return. Hatfield's failure to provide evidence to refute the Commissioner's determinations led the court to uphold the deficiency and additions to the tax. The court also addressed the broader issue of frivolous tax protests, warning of potential damages under section 6673 for such cases.

Practical Implications

This case reinforces the principle that Federal Reserve notes are legal tender and must be reported as income. It also clarifies that a tax return must disclose income to be considered valid. Practitioners should advise clients that frivolous arguments challenging the tax system's validity will not be entertained by the courts and may result in penalties. The decision underscores the importance of the self-assessment system and the potential for sanctions against those who abuse the judicial process with baseless claims. Subsequent cases have cited Hatfield in rejecting similar arguments and upholding penalties for frivolous filings.

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