Wilkinson v. Commissioner, 71 T. C. 633 (1979); 1979 U. S. Tax Ct. LEXIS 186

The court may impose damages under IRC section 6673 for taxpayers who institute proceedings merely to delay payment of taxes, especially when refusing to substantiate deductions with frivolous constitutional claims.

Summary

Roger and Arlene Wilkinson challenged a tax deficiency assessed by the IRS, claiming various deductions without substantiation and relying on frivolous constitutional defenses. The U. S. Tax Court upheld the IRS's disallowance of these deductions due to lack of evidence and awarded damages under IRC section 6673, concluding the Wilkinsons' actions were intended to delay tax payment. This case illustrates the court's power to penalize taxpayers for using the legal system to obstruct tax collection, emphasizing the need for substantiation of claimed deductions and the consequences of frivolous litigation.

Facts

Roger and Arlene Wilkinson claimed deductions for moving expenses, employee business expenses, child care, and contributions on their 1973 tax return. During an IRS audit in 1975, Roger Wilkinson refused to provide records to substantiate these deductions, citing the Fifth Amendment. Despite a district court order to comply, Wilkinson continued to refuse, leading to a tax deficiency notice in 1977. The Wilkinsons then petitioned the U. S. Tax Court, asserting various constitutional objections to the IRS's actions and refusing to substantiate their deductions, relying instead on the assertion that their return was correct when signed under penalty of perjury.

Procedural History

In 1975, the IRS audited the Wilkinsons' 1973 tax return and sought records to substantiate their claimed deductions. After Roger Wilkinson's refusal to comply with an IRS summons, the U. S. District Court for the District of Oregon ordered him to produce documents. Following further refusal, the IRS issued a statutory notice of deficiency in 1977, which the Wilkinsons contested in the U. S. Tax Court. The Tax Court upheld the deficiency and, upon the IRS's motion, awarded damages under IRC section 6673 for the Wilkinsons' delay tactics.

Issue(s)

1. Whether the Wilkinsons are entitled to the claimed deductions without providing substantiation.
2. Whether the Wilkinsons are liable for damages under IRC section 6673 for instituting proceedings merely for delay.

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Holding

1. No, because the Wilkinsons failed to provide any evidence to substantiate their deductions, relying instead on frivolous constitutional claims.
2. Yes, because the Wilkinsons' refusal to provide records and their frivolous objections were deemed to be tactics to delay payment of taxes, justifying damages under IRC section 6673.

Court's Reasoning

The court applied the rule that deductions are a matter of legislative grace and require substantiation. The Wilkinsons' refusal to provide records, despite court orders and warnings, coupled with their reliance on frivolous constitutional arguments, led the court to uphold the IRS's disallowance of the deductions. The court also found that the Wilkinsons' actions constituted a delay tactic, warranting damages under IRC section 6673. The court emphasized the need to discourage frivolous appeals that burden the legal system and increase costs for all taxpayers. The court cited prior cases rejecting similar constitutional objections and noted the Wilkinsons' awareness of the potential for damages, yet they continued their refusal to substantiate their claims. A dissenting opinion by Judge Chabot agreed with the deficiency but disagreed with the imposition of damages.

Practical Implications

This case underscores the importance of substantiating tax deductions with appropriate records and the consequences of using frivolous constitutional claims to delay tax payment. It serves as a warning to taxpayers that the U. S. Tax Court will not tolerate the use of the legal system for delay tactics and may impose damages under IRC section 6673. Practitioners should advise clients to comply with IRS requests for substantiation and avoid relying on meritless constitutional objections. This decision may influence how similar cases involving tax protesters and unsubstantiated deductions are handled, potentially deterring frivolous litigation and encouraging compliance with tax obligations.

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