

## ***Cobb v. Commissioner, 77 T. C. 1096 (1981)***

A validly established Individual Retirement Account (IRA) requires a written governing instrument in existence by the time prescribed for making the contribution to be deductible.

### **Summary**

In *Cobb v. Commissioner*, the U. S. Tax Court ruled that Earle Cobb's 1975 IRA contribution was not deductible due to the absence of a written governing instrument at the time of the contribution. The court also upheld the Commissioner's disallowance of Cobb's claimed business automobile expense deductions for 1975 and 1976 due to inadequate record-keeping. Lastly, the court found Cobb negligent in his tax reporting for 1975, resulting in an addition to tax. This case underscores the necessity of a written IRA agreement for tax deductions and the importance of maintaining detailed records for business expenses.

### **Facts**

In 1975, Earle Cobb, an attorney, attempted to contribute \$1,500 to an IRA but did not have a written instrument governing such an account until December 15, 1976. He claimed this contribution as a deduction on his 1975 tax return. Additionally, Cobb claimed deductions for business use of his automobile in 1975 and 1976, based on checks from an account used for both business and personal expenses. However, he did not keep specific records of his business mileage.

### **Procedural History**

The Commissioner of Internal Revenue disallowed Cobb's IRA contribution deduction for 1975 and reduced his automobile expense deductions for both years. Cobb petitioned the U. S. Tax Court, which upheld the Commissioner's determinations on all counts.

### **Issue(s)**

1. Whether Cobb's 1975 IRA contribution was deductible without a written governing instrument in existence by the time of the contribution.
2. Whether Cobb was entitled to automobile expense deductions in excess of those allowed by the Commissioner for 1975 and 1976.
3. Whether Cobb was liable for an addition to tax for negligence or intentional disregard of rules and regulations for 1975.

### **Holding**

1. No, because the law requires a written instrument governing the IRA to be in existence by the time prescribed for making such a contribution.
2. No, because Cobb failed to maintain adequate records to substantiate his

business use of the automobile.

3. Yes, because Cobb's explanations for his deductions were unsatisfactory, indicating negligence in tax reporting.

### **Court's Reasoning**

The court relied on IRC sections 219 and 408, which mandate that an IRA must be governed by a written instrument to qualify for a deduction. Since Cobb did not have such an instrument until 1976, his 1975 contribution was not deductible. The court also applied IRC section 162, which allows deductions for business expenses, but found Cobb's records insufficient to prove the business use of his automobile. The court considered Cobb's status as an attorney and deemed his lack of due diligence in tax matters as negligence under IRC section 6653(a), leading to an addition to tax. The court cited legislative history and regulations to support its findings and emphasized the importance of maintaining accurate records for tax deductions.

### **Practical Implications**

This decision clarifies that a written IRA agreement is essential for a deductible contribution, affecting how taxpayers must structure their retirement accounts. It also reinforces the need for detailed record-keeping for business expense deductions, particularly for automobile use. Legal practitioners should advise clients on the strict requirements for IRA deductions and the necessity of maintaining thorough records for all business expenses. The ruling has implications for tax planning and compliance, emphasizing the potential penalties for negligence in tax reporting. Subsequent cases have cited Cobb to uphold similar requirements for IRA deductions and to stress the importance of substantiation for business expense deductions.