Reiff v. Commissioner, 77 T. C. 1169 (1981)

A document that does not provide sufficient data to compute tax liability does not constitute a valid tax return, and thus may result in penalties for failure to file.

Summary

In Reiff v. Commissioner, the Tax Court held that a 32-page document filed by the Reiffs, which included a modified Form 1040 and various constitutional objections, did not constitute a valid tax return for the year 1977. The document lacked essential information such as income, deductions, and exemptions necessary for the IRS to compute the Reiffs' tax liability. As a result, the Reiffs were liable for the increased deficiency in income tax and additions to tax under sections 6651(a)(1) for failure to file and 6653(a) for negligence. The court emphasized that the document did not meet the criteria of a return due to its insufficient data and lack of an honest attempt to comply with tax filing requirements.

Facts

Charles and Mildred Reiff filed a 32-page document with the IRS for the year 1977, which included a modified 1976 Form 1040. The Form 1040 was signed under penalties of perjury and showed the Reiffs' names, address, social security numbers, Charles' occupation, federal income tax withheld, and estimated tax payments. However, it did not provide information on filing status or exemptions, and the remaining lines were marked with asterisks indicating constitutional objections. Attached to the document was Charles' Form W-2 with a notation that the dollar amounts were Federal Reserve Notes. Charles intended to file a "Fifth Amendment return" and was influenced by a group advocating for such filings.

Procedural History

The IRS determined a deficiency in the Reiffs' federal income tax for 1977 and asserted an increased deficiency in its answer. The Reiffs petitioned the U. S. Tax Court, arguing that their 32-page document constituted a valid return. The Tax Court reviewed the case to determine the validity of the document as a return and whether the Reiffs were liable for the deficiency and additions to tax.

Issue(s)

1. Whether the Reiffs are liable for an income tax deficiency for the year 1977.
2. Whether the Reiffs are liable for an addition to tax under section 6651(a)(1) for failure to file a return.
3. Whether the Reiffs are liable for an addition to tax under section 6653(a) for negligence or intentional disregard of rules and regulations.

Holding

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1. Yes, because the Reiffs received taxable income in the form of wages, dividends, interest, and a distribution from a profit-sharing plan, and failed to provide evidence of deductions, exclusions, or credits that would reduce their tax liability.
2. Yes, because the 32-page document did not contain sufficient data to compute the Reiffs' tax liability, and their failure to file a valid return was due to willful neglect and not reasonable cause.
3. Yes, because the Reiffs' underpayment of tax was due to negligence or intentional disregard of rules and regulations.

Court's Reasoning

The court determined that the Reiffs' document did not meet the criteria of a valid tax return. It cited several reasons: the document did not provide sufficient data for the IRS to compute and assess the Reiffs' tax liability, as it lacked information on income, deductions, credits, and tax liability; the Reiffs' intention to file a "Fifth Amendment return" did not excuse them from providing the required information; and the document was not an honest and genuine endeavor to satisfy the requirements for a return. The court emphasized that a valid return must contain sufficient data in a uniform and orderly fashion to enable the IRS to compute the tax liability, citing cases such as *Commissioner v. Lane-Wells Co.* and *Automobile Club of Michigan v. Commissioner*. The court also rejected the Reiffs' constitutional objections as frivolous and noted that the acceptance of such documents as valid returns would disrupt the administration of tax laws.

Practical Implications

This decision reinforces the importance of filing a valid tax return that provides all necessary information for the IRS to compute tax liability. Taxpayers must ensure that their returns contain sufficient data and are not merely objections or protests. The ruling underscores that constitutional objections do not excuse taxpayers from their filing obligations. Practically, this case serves as a warning to taxpayers and tax preparers that filing documents that lack essential tax information can result in penalties for failure to file and negligence. Subsequent cases, such as *United States v. Rickman*, have cited *Reiff* in determining the validity of tax returns. Legal practitioners should advise clients to comply with IRS requirements to avoid similar penalties.

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