Hebrank v. Commissioner, 81 T. C. 640 (1983)

Fraudulent tax evasion can justify the imposition of additions to tax under section 6653(b) of the Internal Revenue Code.

Summary

In Hebrank v. Commissioner, the U. S. Tax Court held that Steve A. Hebrank's deliberate falsification of W-4 forms and W-2 statements, coupled with his failure to file an adequate tax return for 1979, constituted fraud, warranting the addition to tax under section 6653(b). The court found clear and convincing evidence of Hebrank's intent to evade taxes, as evidenced by his consistent pattern of tax noncompliance and efforts to mislead the IRS. This decision emphasizes the importance of the IRS's ability to impose penalties for fraudulent actions that undermine the tax system.

Facts

Steve A. Hebrank, a pipefitter, earned $28,416. 64 in 1979 from various employers. He filed W-4 forms claiming exemption from federal withholding, despite knowing he had a tax liability. Hebrank submitted a Form 1040A for 1979, reporting zero income and requesting a refund of withheld taxes. He altered W-2 statements to obliterate wage information and attached an affidavit asserting his income was not subject to tax. Hebrank had a history of tax noncompliance, having been found liable for deficiencies and additions to tax for 1977 and 1978.

Procedural History

The Commissioner of Internal Revenue determined a deficiency and addition to tax for Hebrank's 1979 tax year. Hebrank petitioned the U. S. Tax Court, which had previously found him liable for the deficiency. The sole issue remaining was whether the underpayment was due to fraud, warranting the addition to tax under section 6653(b). The court ruled in favor of the Commissioner, affirming the addition to tax.

Issue(s)

1. Whether any part of Hebrank's underpayment of tax for 1979 was due to fraud, justifying the imposition of an addition to tax under section 6653(b).

Holding

1. Yes, because Hebrank's actions, including filing false W-4 forms, altering W-2 statements, and failing to file an adequate return, demonstrated a clear intent to evade taxes, meeting the legal standard for fraud under section 6653(b).

Court's Reasoning

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The Tax Court applied the legal standard for fraud, requiring clear and convincing evidence of an underpayment of tax and that some part of this underpayment was due to fraud. The court found that Hebrank's actions met this standard. It noted that Hebrank's consistent pattern of noncompliance, including previous findings of fraud for 1977 and 1978, supported the conclusion that his actions in 1979 were intentional and fraudulent. The court distinguished Hebrank's case from Raley v. Commissioner, emphasizing that Hebrank did not provide any notification of his tax protest, unlike Raley. The court quoted Helvering v. Mitchell to underscore that additions to tax serve as a safeguard for the revenue and to reimburse the government for the costs of investigation.

Practical Implications

This decision reinforces the IRS's ability to impose severe penalties for fraudulent tax evasion. Practitioners should advise clients that deliberate falsification of tax documents and failure to file adequate returns can lead to significant additions to tax under section 6653(b). The case serves as a warning to taxpayers that consistent patterns of noncompliance and attempts to mislead the IRS will be met with harsh penalties. Subsequent cases, such as Jenny v. Commissioner, Hindman v. Commissioner, and Chaffin v. Commissioner, have applied similar reasoning in upholding additions to tax for fraudulent actions.

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