Stringer v. Commissioner, 84 T. C. 91 (1985)

The Tax Court may dismiss issues upon which a party bears the burden of proof for failure to file a brief, and fraud can be established by clear and convincing evidence of intentional evasion of tax obligations.

Summary

In Stringer v. Commissioner, the petitioners, Ronald and Andrea Stringer, failed to file proper tax returns and engaged in obstructive tactics during an IRS audit and subsequent Tax Court proceedings. The court found that their failure to file a required brief justified dismissal of issues on which they had the burden of proof under Tax Court Rule 123. Additionally, the IRS established by clear and convincing evidence that the Stringers' actions constituted fraud, warranting the imposition of civil fraud penalties. The case highlights the importance of compliance with court procedures and the serious consequences of attempting to evade tax liabilities through deliberate misconduct.

Facts

Ronald and Andrea Stringer, a married couple, were assessed tax deficiencies and penalties for the years 1978 through 1981. They initially filed altered 1978 tax forms and later filed unsigned and altered forms for the subsequent years. The Stringers also filed false W-4 forms to avoid income tax withholding. Throughout the IRS audit and subsequent litigation, they were uncooperative, failed to produce requested documents, and submitted inconsistent claims. They did not file a brief as ordered by the court, which further complicated the case.

Procedural History

The IRS issued notices of deficiency to the Stringers, who then filed petitions in the Tax Court. The court ordered the Stringers to comply with discovery requests and file a brief, but they failed to do so. The IRS moved for a default judgment or dismissal under Tax Court Rule 123 due to the Stringers' noncompliance. The court granted the motion, dismissing issues on which the Stringers bore the burden of proof and upheld the IRS's determination of additional income and fraud penalties.

Issue(s)

1. Whether the Tax Court can dismiss issues upon which petitioners bear the burden of proof for failure to file a brief under Rule 123?
2. Whether the IRS established fraud by clear and convincing evidence to justify the imposition of civil fraud penalties under section 6653(b)?

Holding

1. Yes, because the Tax Court has the authority under Rule 123 to dismiss issues for

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failure to comply with court orders and rules, including the failure to file a brief.
2. Yes, because the IRS provided clear and convincing evidence of the Stringers' intentional wrongdoing aimed at evading tax obligations, including filing false forms and obstructing the audit process.

Court's Reasoning

The court reasoned that the Stringers' failure to file a brief, despite a clear order, constituted a default under Rule 123(a) and a failure to prosecute under Rule 123(b). The court emphasized the importance of briefs in helping the court understand and resolve issues, especially in complex cases like this one. On the fraud issue, the court found that the Stringers' actions, such as filing altered forms, using false W-4s, and refusing to cooperate with the IRS, demonstrated an intent to evade taxes. The court cited Stoltzfus v. United States and Powell v. Granquist for the definition of fraud and noted that the Stringers' conduct throughout the audit and trial process was indicative of an intent to conceal and mislead.

Practical Implications

This decision underscores the importance of complying with court orders and procedures, particularly the filing of briefs. Practitioners should be aware that failure to file a brief can result in the dismissal of issues upon which their clients bear the burden of proof. The case also serves as a warning that the IRS can establish fraud through a pattern of deliberate noncompliance and obstruction. Taxpayers and their attorneys should be cautious about engaging in tactics that could be construed as fraudulent. Subsequent cases have cited Stringer to support the application of Rule 123 and the imposition of fraud penalties based on similar conduct.

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