Estate of Joseph Caporella, Deceased, Nick A. Caporella, Personal Representative, and Jean Caporella, Petitioners v. Commissioner of Internal Revenue, Respondent, 86 T. C. 285 (1986)

Form 5214 constitutes a general consent to extend the period of limitations for assessing income tax, applicable to all items on a return, not just those related to the activity for which the election was made.

Summary

The Caporellas, engaged in horse breeding, filed Form 5213 to postpone profit determination under IRC section 183(d) and executed multiple Form 5214 consents extending the statute of limitations for tax assessments. The issue was whether the fourth Form 5214 was a general or restricted consent to extend the statute of limitations for 1976, affecting the validity of a deficiency notice issued in 1982. The Tax Court held that Form 5214 was a valid, general consent extending the statute of limitations for 1976 until December 31, 1982, allowing the Commissioner to assess deficiencies related to any item on the return, not solely the horse breeding activity. The decision underscored the importance of clear understanding of the scope of consent forms in tax assessments.

Facts

The Caporellas reported losses from a horse breeding activity on their tax returns and elected to postpone the determination of whether this activity was for profit under IRC section 183(d) by filing Form 5213. To keep the statute of limitations open, they executed several Form 5214 consents. In 1976, they reported a net operating loss, carried back to 1973, which led to refunds. Later, the IRS disallowed losses from two movie tax shelters, impacting the 1976 loss carryback and triggering deficiencies for 1973 and 1974. The fourth Form 5214, executed in 1980, extended the assessment period for 1976 until December 31, 1982. The Caporellas argued that this form was restricted to horse breeding activities, while the IRS contended it was a general consent.

Procedural History

The Caporellas filed a petition in the U. S. Tax Court after receiving a notice of deficiency from the IRS for tax years 1973, 1974, and 1977, asserting that the statute of limitations for 1976 had expired. The Tax Court reviewed the validity and scope of the fourth Form 5214, considering whether it extended the period of limitations for assessing deficiencies related to all items on the 1976 return or only those related to the horse breeding activity.

Issue(s)

1. Whether the fourth Form 5214 executed by the Caporellas was a general consent to extend the period of limitations for assessing income tax deficiencies for the year

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1976, or a restricted consent limited to the horse breeding activity?

Holding

1. Yes, because the fourth Form 5214 was a valid, general consent extending the period of limitations for assessing deficiencies in the Caporellas' 1976 income until December 31, 1982, applicable to all items on the return, not just the horse breeding activity.

Court's Reasoning

The court analyzed the language of Form 5214, which clearly stated it extended the period for assessing "any Federal income tax" due for specified years, indicating a general consent. The court rejected the Caporellas' arguments that the form was a nullity or restricted due to the 1976 amendment to IRC section 183(e), which automatically extended the statute for hobby losses but did not affect general consents. The court found no misrepresentation or mutual mistake justifying altering the plain language of the consent. The court also confirmed the authority of the IRS official who signed the form, affirming its validity.

Practical Implications

This decision clarifies that Form 5214 is a general consent to extend the statute of limitations for all tax items on a return unless explicitly restricted. Taxpayers and practitioners must carefully review and understand the scope of any consent form before signing, as it may affect all tax assessments, not just those related to the activity initially under review. This ruling may influence how taxpayers approach statute of limitations issues, particularly in situations involving multiple income sources or activities. It also underscores the IRS's authority to assess deficiencies beyond the standard three-year period when a general consent is in place, impacting future audit and assessment strategies.

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