

Calcutt v. Commissioner, 92 T. C. 494 (1989)

Collateral estoppel prevents relitigation of shareholder basis in subchapter S corporation stock where previously decided, even if new evidence or different legal arguments are presented.

Summary

In *Calcutt v. Commissioner*, the Tax Court ruled that the taxpayers were collaterally estopped from increasing their adjusted basis in subchapter S corporation stock due to a prior decision in *Calcutt I*. The court found that the prior decision constituted a judgment on the merits regarding the basis issue, despite new evidence and the *Selfe v. United States* decision. The court emphasized the economic outlay requirement for increasing shareholder basis and rejected arguments that special circumstances in the prior proceeding should prevent the application of collateral estoppel. The practical implication is that taxpayers must meet the economic outlay test to increase their basis, and collateral estoppel can apply across different tax years when the issue is the same.

Facts

James and June Calcutt, along with the Hershfelds, formed Uptown-Levy, Inc. , a subchapter S corporation, to operate a delicatessen. The corporation secured a \$210,000 loan from Fairfax Savings & Loan, with the shareholders personally guaranteeing the loan and using their residences as additional collateral. Due to financial difficulties, the corporation faced late loan payments and additional borrowing. In a prior case, *Calcutt I*, the Tax Court ruled against the taxpayers' claim to increase their stock basis due to the loan, finding they did not meet their burden of proof. In the current case, the taxpayers attempted to relitigate the basis issue, presenting new evidence and citing a new legal precedent.

Procedural History

In *Calcutt I*, the Tax Court denied the taxpayers' claim to increase their basis in Uptown stock for the 1981 tax year. The current case involves the 1982 tax year, where the Commissioner again disallowed the taxpayers' net operating loss deduction due to insufficient basis. The Tax Court consolidated the *Calcutt* and *Hershfeld* cases for trial but later severed them due to a settlement in the *Hershfeld* case. The Tax Court then ruled on the collateral estoppel issue in the *Calcutt* case.

Issue(s)

1. Whether the taxpayers are collaterally estopped from asserting an increased basis in their subchapter S corporation stock due to the prior decision in *Calcutt I*?
2. If not collaterally estopped, whether the taxpayers have sustained their burden of proving an increased adjusted basis in their subchapter S corporation stock?

Holding

1. Yes, because the prior decision in *Calcutt I* constituted a judgment on the merits regarding the shareholder guarantee issue, and there was no significant change in controlling legal principles or special circumstances to prevent the application of collateral estoppel.
2. No, because the taxpayers failed to show any increase in their adjusted basis due to loans or capital contributions in 1982.

Court's Reasoning

The court applied the doctrine of collateral estoppel, finding that the prior decision in *Calcutt I* was a judgment on the merits. The court rejected the taxpayers' argument that the *Selfe v. United States* decision constituted a significant change in the law, as *Selfe* did not meet the economic outlay requirement established in prior cases. The court also found no special circumstances to prevent the application of collateral estoppel, despite the taxpayers' pro se status in the prior proceeding and their failure to present certain evidence. The court emphasized the purpose of collateral estoppel in preventing redundant litigation and upheld the Commissioner's disallowance of the net operating loss deduction for 1982.

Practical Implications

This decision reinforces the importance of the economic outlay requirement for increasing shareholder basis in subchapter S corporations. Taxpayers cannot rely on guarantees or collateral alone to increase their basis; they must show an actual economic outlay. The case also clarifies that collateral estoppel can apply across different tax years when the issue is the same, even if new evidence or legal arguments are presented. Practitioners should be cautious about relying on cases like *Selfe*, which depart from the majority view on this issue. The decision may impact how taxpayers plan their investments in subchapter S corporations and how they approach litigation involving similar issues in future years.