Tweeddale v. Commissioner, 92 T. C. 501 (1989)

The broad definition of a tax shelter under section 6661 includes any plan or arrangement whose principal purpose is the avoidance or evasion of federal income tax, encompassing tax protestor schemes.

Summary

In Tweeddale v. Commissioner, the U. S. Tax Court ruled that Thomas Tweeddale's claim of tax-exempt status as a minister of the Basic Bible Church of America constituted a tax shelter under section 6661. Tweeddale had filed his 1983 tax return claiming all income was tax-exempt due to his ministerial status, but later conceded this claim. The court found that Tweeddale failed to prove entitlement to a dependency exemption, partnership loss, or head of household filing status, and upheld additions to tax under sections 6653(a)(1), 6653(a)(2), and 6661, applying a 25% rate for the latter. This case highlights the court's broad interpretation of what constitutes a tax shelter and its resolve to curb tax avoidance schemes.

Facts

Thomas Tweeddale filed his 1983 federal income tax return claiming all of his $79,021. 45 income was tax-exempt due to his status as a minister of the Basic Bible Church of America. He attached documents to his return, including a certificate of ordination, which he purchased for $1,200. Tweeddale later conceded that he was not tax-exempt. He sought to claim a dependency exemption for his son, a partnership loss of $39. 58, and head of household filing status. The Commissioner determined deficiencies and additions to tax based on Tweeddale's initial claim of tax-exemption.

Procedural History

The Commissioner determined a deficiency and additions to tax against Tweeddale for 1983. Tweeddale petitioned the U. S. Tax Court, where he conceded his tax-exempt status but sought other tax benefits. The court allowed the Commissioner to amend the answer to increase the section 6661 addition to tax rate to 25%.

Issue(s)

1. Whether Tweeddale was entitled to claim a dependency exemption for his son in 1983.
2. Whether Tweeddale was entitled to claim a partnership loss of $39. 58.
3. Whether Tweeddale was entitled to head of household filing status.
4. Whether Tweeddale was liable for additions to tax under sections 6653(a)(1) and 6653(a)(2).
5. Whether the section 6661 additions to tax applied to Tweeddale's case.
6. If applicable, what was the appropriate rate of the section 6661 addition to tax?

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Holding

1. No, because Tweeddale failed to prove he provided the required support for his son.
2. No, because Tweeddale did not provide sufficient evidence of his partnership interest or the loss.
3. No, because Tweeddale did not provide sufficient evidence that he maintained a household for his son.
4. Yes, because Tweeddale did not meet his burden of proof to negate these additions.
5. Yes, because Tweeddale's claim to be tax-exempt through his ministerial status constituted a tax shelter under section 6661(b)(2)(C)(ii)(III).
6. 25%, because the Omnibus Reconciliation Act of 1986 increased the rate for section 6661 additions to tax.

Court's Reasoning

The court emphasized the broad definition of a tax shelter under section 6661, which includes "any other plan or arrangement" whose principal purpose is tax avoidance or evasion. Tweeddale's claim of tax-exempt status based on his ministerial position with the Basic Bible Church, a known tax protestor scheme, fit this definition. The court cited previous cases interpreting similar language in sections 6700 and 7408 to support its interpretation. Tweeddale's failure to provide substantial authority or reasonable belief in his tax treatment of the ministerial income led to the upholding of the section 6661 addition to tax. The court also noted the increased rate to 25% as per the Omnibus Reconciliation Act of 1986. The decision reflects the court's frustration with tax avoidance schemes and its intent to deter such behavior by applying the tax shelter provisions.

Practical Implications

This decision expands the scope of what may be considered a tax shelter under section 6661, potentially affecting how tax professionals advise clients on tax avoidance schemes. It underscores the importance of substantial authority and reasonable belief in tax treatments, particularly when claiming exemptions or deductions. The ruling may deter taxpayers from engaging in tax protestor schemes, knowing that such activities can lead to substantial penalties. Legal practitioners must be cautious in advising clients on tax strategies that may be deemed as tax shelters, even if they do not involve traditional investment plans or partnerships. Subsequent cases have referenced Tweeddale to apply section 6661 broadly, reinforcing its impact on tax law enforcement against abusive tax avoidance.

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