Crocker v. Commissioner, 92 T. C. 899 (1989)

Automatic extensions of time to file tax returns are void if taxpayers fail to make a bona fide and reasonable estimate of their tax liability.

Summary

In Crocker v. Commissioner, the taxpayers requested automatic extensions to file their 1981 and 1982 tax returns but significantly underestimated their tax liabilities. The IRS argued these extensions were invalid due to the taxpayers' failure to properly estimate their tax, resulting in late filing penalties. The Tax Court held that the extensions were void because the taxpayers did not make a bona fide effort to estimate their taxes or gather necessary information. Consequently, they were liable for failure-to-file penalties under IRC section 6651(a)(1) and negligence penalties under IRC section 6653(a). This case underscores the importance of due diligence in tax reporting and the strict requirements for obtaining valid filing extensions.

Facts

Ottis B. Crocker, Jr. , and Kay E. Crocker, calendar year taxpayers, requested automatic extensions to file their 1981 and 1982 federal income tax returns. They filed their returns after April 15 but within the extended deadlines. For 1981, they estimated their tax at $12,000, paying $2,000 with the extension request, but their actual liability was $41,559. 08. For 1982, they estimated $22,000, paying $20,403. 24, but their true liability was $36,214. 32. The taxpayers had poor recordkeeping and did not attempt to replace lost financial information or contact necessary parties to obtain missing data. They also deducted expenses without including corresponding income and took improper Keogh plan deductions.

Procedural History

The IRS audited the Crockers' returns, proposing increases in tax and penalties for 1981 and 1982. The taxpayers agreed to the increased tax but contested the penalties. The IRS issued a statutory notice of deficiency, asserting additions to tax under IRC sections 6651(a)(1), 6653(a)(1), and 6653(a)(2). The taxpayers petitioned the U. S. Tax Court, which upheld the IRS's determination, finding the automatic extensions void and the taxpayers liable for the penalties.

Issue(s)

1. Whether the taxpayers are liable for additions to tax under IRC section 6651(a)(1) for failure to timely file their 1981 and 1982 federal income tax returns?
2. Whether the taxpayers are liable for additions to tax under IRC sections 6653(a)(1) and 6653(a)(2) for underpayment of tax due to negligence or intentional disregard of rules and regulations for the years 1981 and 1982?

Holding

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1. Yes, because the taxpayers failed to make a bona fide and reasonable estimate of their tax liability, rendering their automatic extension requests invalid and their returns late filed.
2. Yes, because the taxpayers were negligent in underreporting their taxes, as they did not maintain adequate records, failed to obtain necessary financial information, and improperly reported income and deductions.

Court's Reasoning

The court applied IRC section 6651(a)(1) and the regulation under section 1. 6081-4(a)(4), which requires a proper estimation of tax liability for an automatic extension. The court interpreted "properly estimated" as requiring a bona fide and reasonable effort to estimate tax based on available information. The Crockers did not make such efforts, as they did not consult their financial records or attempt to obtain missing information. Their gross underestimations indicated a lack of diligence. The court also found the taxpayers negligent under IRC section 6653(a) for failing to maintain adequate records and properly report income and deductions. The court rejected the taxpayers' arguments for reasonable cause, noting that overwork and lack of information do not excuse late filing. The court upheld the IRS's computation of penalties, excluding only the portion related to the Keogh plan contributions, which were not found to be negligently claimed.

Practical Implications

This decision emphasizes the importance of due diligence in tax reporting and the strict criteria for obtaining valid extensions. Taxpayers must make a reasonable effort to estimate their tax liability accurately when requesting an extension. Poor recordkeeping and failure to seek necessary information can void an extension and lead to penalties. Practitioners should advise clients to maintain comprehensive records and make diligent efforts to estimate taxes accurately. This case may deter taxpayers from casually requesting extensions without proper preparation, potentially affecting how similar cases are handled in the future. It also highlights the IRS's ability to challenge the validity of extensions retroactively, impacting taxpayers' reliance on such extensions.

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