Flying Tigers Oil Co. , Inc. v. Commissioner, T. C. Memo 1989-287 (1989)

Section 982 of the Internal Revenue Code mandates the exclusion of foreign-based documentation in court if a taxpayer fails to comply with an IRS formal document request without reasonable cause.

Summary

In Flying Tigers Oil Co. , Inc. v. Commissioner, the Tax Court addressed the applicability of IRC section 982, which penalizes taxpayers for non-compliance with IRS document requests. The IRS had sought various financial records from Flying Tigers to verify its 1984 tax return, which reported no income despite listing substantial assets. After the company failed to respond to multiple requests and a summons, the IRS moved to exclude all foreign-based documentation from trial. The Tax Court granted this motion, ruling that Flying Tigers did not provide the requested documents or establish reasonable cause for non-compliance, thereby enforcing section 982's exclusionary rule.

Facts

Flying Tigers Oil Co. , Inc. , an Arizona corporation, filed a 1984 tax return reporting no income but listing assets over $200 billion. In 1986, the IRS began examining this return and requested financial documents through multiple letters and a formal summons. Flying Tigers did not respond to these requests. Instead, they sent a notice from a foreign court attempting to halt the IRS examination. The IRS, unable to verify Flying Tigers' tax liability due to the lack of documentation, issued a notice of deficiency and moved to exclude foreign-based documents from any subsequent trial under IRC section 982.

Procedural History

The IRS initiated an examination of Flying Tigers' 1984 tax return in May 1986. After unsuccessful attempts to obtain documents, the IRS sent a formal document request via registered mail in August 1987, followed by a summons served on the company's agent. Flying Tigers did not comply with these requests or challenge them in a U. S. District Court. In May 1989, the IRS moved to prohibit the introduction of foreign-based documents at trial. The Tax Court granted this motion in June 1989.

Issue(s)

1. Whether the IRS complied with the requirements of IRC section 982 when requesting documents from Flying Tigers.
2. Whether Flying Tigers established reasonable cause for failing to produce the requested documents.
3. Whether the exclusion of foreign-based documentation under section 982 extends to documents derived from such documentation.

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Holding

1. Yes, because the IRS sent a formal document request by registered mail specifying the required elements under section 982(c)(1).
2. No, because Flying Tigers did not respond to the court's order and thus conceded that no reasonable cause existed for its non-compliance.
3. Yes, because excluding documents derived from foreign-based documentation is necessary to prevent circumvention of section 982's purpose.

Court's Reasoning

The Tax Court analyzed section 982, which imposes sanctions for non-compliance with IRS document requests. The court found that the IRS met the statutory requirements for a formal document request, including mailing by registered mail and specifying the necessary details. The court also noted that Flying Tigers' failure to respond to the court's order effectively conceded that the requested documents were relevant and material, and that no reasonable cause existed for non-compliance. The court emphasized that allowing documents derived from excluded foreign-based documentation would undermine section 982's intent. The court cited prior cases where section 982 was mentioned but not directly applied, and referenced the legislative history to support its interpretation of the statute.

Practical Implications

This decision underscores the importance of complying with IRS document requests, especially for taxpayers with foreign-based documentation. Practitioners must advise clients to respond promptly to IRS requests or challenge them in court to avoid the exclusion of crucial evidence. The ruling clarifies that section 982's exclusionary rule extends to documents derived from foreign-based documentation, impacting how tax disputes involving international elements are litigated. Businesses with foreign operations should ensure they can produce requested documents or establish reasonable cause for non-compliance to avoid adverse rulings. Subsequent cases have followed this precedent, reinforcing the need for cooperation with IRS examinations.

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