Bokum v. Commissioner, 94 T. C. 126 (1990)

An innocent spouse may be denied relief if they had knowledge or reason to know of the underlying transaction leading to a tax understatement, even if unaware of the tax consequences.

Summary

In Bokum v. Commissioner, the Tax Court denied innocent spouse relief to Margaret Bokum for a substantial tax understatement in 1977, primarily due to her husband Richard's mischaracterization of income and erroneous basis claim related to the sale of a ranch. Despite Margaret's lack of involvement in business or tax affairs, the court held that her knowledge of the ranch sale and the prominence of the erroneous items on the tax return should have prompted her to inquire further. This case underscores the importance of awareness of underlying transactions and the duty of inquiry for a spouse claiming innocent status, emphasizing that ignorance of tax consequences alone does not suffice for relief.

Facts

Richard Bokum owned Quinta Land & Cattle Co. , which sold a portion of its ranch in 1977, resulting in a distribution to Richard. The distribution was reported as long-term capital gain on the joint tax return filed by Richard and Margaret Bokum, offset by an erroneous claim of Richard's basis in Quinta's stock. Margaret was aware of the ranch sale but not involved in the business decision or tax return preparation. The couple stipulated to a tax deficiency, and Margaret sought innocent spouse relief for the understatement.

Procedural History

The Tax Court reviewed Margaret's claim for innocent spouse relief under Section 6013(e) of the Internal Revenue Code. The parties had previously stipulated to the deficiency amounts and settled all issues except the innocent spouse claim. The court denied Margaret's motion to be relieved from the stipulation regarding Richard's basis in Quinta, and subsequently, the court denied her innocent spouse relief.

Issue(s)

1. Whether judicial estoppel precludes petitioners from arguing that Margaret qualifies for innocent spouse relief.
2. If not, whether Margaret qualifies as an innocent spouse with respect to the tax deficiency attributed to the mischaracterization of income and the erroneous basis claim.

Holding

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1. No, because petitioners' unsuccessful motion to be relieved from a stipulation does not preclude them from arguing for innocent spouse relief.
2. No, because Margaret either knew or had reason to know of the circumstances giving rise to the substantial understatement, disqualifying her from innocent spouse relief.

Court's Reasoning

The court applied Section 6013(e) criteria for innocent spouse relief, focusing on Margaret's knowledge of the ranch sale and the prominence of the erroneous items on the tax return. The court ruled that Margaret's awareness of the sale and the large figures related to the distribution and basis claim on the return should have prompted her to inquire further, despite her lack of business or tax expertise. The court emphasized that knowledge of the underlying transaction, not just tax consequences, is crucial for innocent spouse relief. It also noted that both the mischaracterization of income and the erroneous basis claim lacked a basis in law, but Margaret's knowledge of the transaction disqualified her from relief.

Practical Implications

This decision highlights the importance of a spouse's duty to inquire when signing a joint tax return, particularly when large or unusual items are present. It underscores that innocent spouse relief is not available if a spouse knows or should know of the underlying transaction causing the understatement, even if unaware of the tax consequences. Practitioners should advise clients to carefully review tax returns for significant transactions and seek clarification if necessary. This case may influence future innocent spouse cases by emphasizing the need for awareness and inquiry into transactions reported on joint returns. Subsequent cases have continued to reference Bokum in analyzing the knowledge requirement for innocent spouse relief.

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