

## ***Myco Industries, Inc. v. Commissioner, 98 T. C. 270 (1992)***

The IRS must include the tax years in its notification under IRC section 534(b) to properly shift the burden of proof to the taxpayer in accumulated earnings tax cases.

### **Summary**

In *Myco Industries, Inc. v. Commissioner*, the IRS failed to specify the tax years in its section 534(b) notification for an accumulated earnings tax deficiency. The Tax Court ruled that this omission rendered the notification deficient, despite the taxpayer not being prejudiced by the error. The decision underscores that the notification must clearly state the tax years in question to effectively shift the burden of proof to the taxpayer, highlighting the importance of precise communication from the IRS in tax proceedings.

### **Facts**

Myco Industries, Inc. received a notification from the IRS under IRC section 534(b) proposing an accumulated earnings tax deficiency. The notification did not specify the tax years to which it pertained. Subsequent correspondence from the IRS clarified that the years in question were the taxable years ended April 30, 1983, and 1984. Myco Industries challenged the sufficiency of the initial notification, arguing that the lack of specified years made it deficient under the statute.

### **Procedural History**

The IRS issued a notice of deficiency to Myco Industries for the accumulated earnings tax for the taxable years ended April 30, 1983, and 1984. Prior to this, the IRS sent a section 534(b) notification that failed to specify the tax years. Myco Industries filed a petition with the Tax Court, contesting the validity of the notification and seeking to shift the burden of proof to the IRS.

### **Issue(s)**

1. Whether the IRS's section 534(b) notification, which omitted the tax years in question, was deficient under IRC section 534(b).

### **Holding**

1. Yes, because the section 534(b) notification must include the tax years to which it pertains to be valid, and the IRS's failure to do so resulted in the notification being deficient.

### **Court's Reasoning**

The Tax Court reasoned that the purpose of the section 534(b) notification is to allow the taxpayer to prepare a section 534(c) statement explaining the grounds for

accumulation. Without specifying the tax years, the notification fails to fulfill its function. The court emphasized that the statute's intent is to protect taxpayers by shifting the burden of proof to the IRS unless proper procedures are followed. The court rejected the argument that actual notice or lack of prejudice could cure the defect, as it would necessitate a factual inquiry in each case. The court concluded that a clear, prophylactic rule requiring the inclusion of tax years in the notification better serves the statute's purpose.

### **Practical Implications**

This decision has significant implications for IRS practice and taxpayer rights in accumulated earnings tax cases. The IRS must ensure that its section 534(b) notifications clearly state the tax years in question to shift the burden of proof effectively. This ruling may lead to increased scrutiny of IRS notices and potentially more challenges by taxpayers to the sufficiency of such notifications. It also underscores the importance of precise communication in tax proceedings, potentially affecting how similar cases are analyzed and how legal professionals advise clients on responding to IRS notifications.