Risman v. Commissioner, 100 T. C. 191 (1993)

A taxpayer's remittance accompanying a Form 4868 for an extension of time to file a tax return is deemed a deposit, not a payment of tax, unless it represents a good faith estimate of the tax liability.

Summary

The Rismans remitted $25,000 to the IRS with their Form 4868 for an automatic extension to file their 1981 tax return, which the IRS treated as a deposit in a suspense account. The issue was whether this remittance should be considered a payment of tax for statute of limitations purposes on refunds. The Tax Court held that the remittance was a deposit, not a payment, because it was not a good faith estimate of their tax liability, allowing the Rismans to claim a refund within the statutory period after filing their return in 1989.

Facts

In April 1982, Robert and Eleanor Risman filed a Form 4868 requesting an automatic extension to file their 1981 joint federal income tax return. They included a $25,000 remittance, which was credited by the IRS to a non-interest-bearing suspense account. At the time of remittance, the Rismans had no idea what their 1981 tax liability would be, and the amount was arbitrarily chosen to avoid penalties and interest. They did not file their 1981 return until June 7, 1989, claiming an overpayment based on the $25,000 remittance.

Procedural History

The IRS issued a notice of deficiency to the Rismans for tax years 1981 through 1985. The Rismans contested the deficiency and the treatment of their $25,000 remittance as a payment of tax before the U. S. Tax Court. The court analyzed whether the remittance should be considered a deposit or a payment for the purposes of the statute of limitations on refunds.

Issue(s)

1. Whether the $25,000 remittance made by the Rismans with their Form 4868 extension request should be treated as a payment of tax as of April 15, 1982, for statute of limitations purposes under section 6511.

Holding

1. No, because the remittance was not a good faith estimate of the Rismans' tax liability but was arbitrarily chosen and placed in a suspense account by the IRS, it is deemed a deposit, not a payment, and the statute of limitations for a refund did not bar the Rismans' claim upon filing their 1981 return.

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Court’s Reasoning

The court applied the principle that a remittance is not considered a payment of tax until the taxpayer intends it to satisfy an existing tax liability. The Rismans’ remittance was not based on an estimate of their tax liability but was arbitrarily chosen due to their disorganized financial situation. The IRS’s treatment of the remittance as a deposit in a suspense account further supported the court’s conclusion. The court rejected the IRS’s argument that remittances with Form 4868 must be treated as payments of estimated tax under sections 6015 and 6513(b)(2), distinguishing between estimated tax payments and remittances for extension requests. The court emphasized that for an extension to be valid, the remittance must be a good faith estimate of the tax liability, which was not the case here.

Practical Implications

This decision clarifies that remittances accompanying extension requests are not automatically payments of tax but can be deposits if not based on a good faith estimate of the tax liability. Practitioners should advise clients to make good faith estimates when requesting extensions to ensure the validity of the extension and to avoid issues with the statute of limitations on refunds. This ruling may affect how the IRS and taxpayers approach the treatment of remittances for extension requests in future cases, potentially leading to more scrutiny on the nature of such remittances. The decision also highlights the importance of timely filing returns to convert deposits into payments and to start the statute of limitations for refunds.

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