Bassett v. Commissioner, 100 T. C. 650 (1993)

Parents must file tax returns for minor children when the children are unable to do so themselves, and negligence by parents in failing to file can result in penalties for the child.

Summary

Skye Bassett, a minor child actress, earned significant income from 1985 to 1987. Her parents, who were her legal guardians, did not file tax returns on her behalf, despite knowing about her earnings. The Tax Court held that under IRC section 6012(b)(2), her parents were required to file returns for her. The court further ruled that Bassett was liable for additions to tax for failure to file (IRC section 6651(a)), negligence (IRC section 6653(a)), and failure to pay estimated tax (IRC section 6654) due to her parents' actions. This case underscores the legal obligations of guardians to fulfill tax duties for minors incapable of doing so themselves.

Facts

Skye Bassett, born on June 10, 1973, earned substantial income as a child actress from 1985 to 1987, aged 11 to 14. Her parents were her legal guardians and actively involved in her career. They signed her contracts, handled her finances, and knew of her significant earnings. Despite this, they did not file tax returns for her, believing she was exempt because she was a student. Bassett herself was unaware of any tax filing requirements due to her youth.

Procedural History

The IRS determined deficiencies and additions to tax for Bassett for the years 1985, 1986, and 1987. The case was brought before the U. S. Tax Court, which held that Bassett's parents were required to file her returns under IRC section 6012(b)(2). The court also found Bassett liable for additions to tax under IRC sections 6651(a), 6653(a), and 6654 due to her parents' failure to file and negligence.

Issue(s)

1. Whether Bassett's parents were required by IRC section 6012(b)(2) to file tax returns for her during the years she was a minor.
2. Whether Bassett is liable for the addition to tax for failure to file under IRC section 6651(a) because her parents did not have reasonable cause for failing to file for her.
3. Whether Bassett is liable for additions to tax for negligence under IRC section 6653(a) because of her parents' negligent failure to file her returns.
4. Whether Bassett is liable for the addition to tax for failure to pay estimated tax under IRC section 6654 for 1985 and 1986.

Holding

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1. Yes, because IRC section 6012(b)(2) mandates that a guardian file returns for an individual unable to do so, and Bassett's parents were her legal guardians under New York law.
2. Yes, because Bassett's parents did not have reasonable cause for failing to file her returns, and their failure was not due to willful neglect.
3. Yes, because Bassett's parents were negligent in not filing her returns, despite knowing of her substantial income.
4. Yes, because Bassett did not meet the statutory exception for not paying estimated taxes for 1985, as she had tax liability in 1984.

Court's Reasoning

The court applied IRC section 6012(b)(2), which requires guardians to file returns for individuals unable to do so. Bassett's parents, as her legal guardians, were obligated to file her returns. The court rejected the argument that Bassett's incapacity due to her youth was a reasonable cause for not filing, as her parents were capable of fulfilling this duty. The court found that Bassett's parents were negligent in not investigating her tax obligations despite knowing of her earnings. The court also considered the legislative history and legal relationship between parents and children, emphasizing the parents' responsibility for their child's tax duties. The court's decision was influenced by the policy that parents should not escape their responsibilities due to their child's incapacity. There were no dissenting or concurring opinions mentioned.

Practical Implications

This decision underscores the importance of guardians understanding and fulfilling their tax obligations for minors. Legal practitioners should advise clients with minor children earning income to file returns on their behalf. Businesses employing minors should ensure that guardians are informed of tax obligations. The ruling has been cited in subsequent cases to establish the liability of guardians for failing to file returns for minors. It serves as a reminder that negligence by guardians can result in penalties for the minor, emphasizing the need for proactive tax planning in such situations.

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