Bachner v. Commissioner, 109 T. C. 125 (1997)

An overpayment is limited to the excess of taxes paid over the amount that could have been properly assessed, even if assessment is barred by the statute of limitations.

Summary

In Bachner v. Commissioner, the U. S. Tax Court addressed whether withheld taxes constituted an overpayment when the statute of limitations barred assessment. Ronald Bachner filed a 1984 tax return claiming a full refund of withheld taxes, asserting no tax liability. The Commissioner issued a notice of deficiency after the limitations period expired. The court held that an overpayment exists only to the extent that payments exceed the correct tax liability, which was determined to be $4,096. Bachner was entitled to an overpayment of $95. 95 plus interest, reflecting the difference between his withheld taxes and his actual tax liability, including a negligence penalty.

Facts

Ronald Bachner, employed by Westinghouse Electric Corp. in 1984, had $4,396. 95 withheld from his wages as taxes. He filed a timely 1984 tax return, reporting zero tax liability and claiming a refund of the withheld amount. The return included a modified Form 1040 and a letter asserting constitutional rights. In 1989, Bachner was indicted for tax evasion and filing false claims but was acquitted. In 1992, the Commissioner issued a notice of deficiency for 1984, asserting a deficiency of $4,096 and penalties. The Third Circuit Court of Appeals remanded the case to the Tax Court to determine the overpayment for 1984.

Procedural History

Bachner filed his 1984 tax return on April 15, 1985. The Commissioner issued a notice of deficiency on September 11, 1992. Bachner challenged this in the U. S. Tax Court, which initially upheld the deficiency. On appeal, the Third Circuit reversed the Tax Court’s finding that Bachner’s return was invalid, remanding the case to determine the overpayment. The Tax Court then calculated Bachner’s correct tax liability and determined the overpayment.

Issue(s)

1. Whether there was an overpayment of Bachner’s 1984 income tax.
2. If so, what was the amount of the overpayment?

Holding

1. Yes, because Bachner paid more in withheld taxes than his actual tax liability.
2. The overpayment was $95. 95 plus interest, because this was the difference

© 2025 SCOTUSreports.com. All rights reserved.

between the withheld taxes and the correct tax liability, including penalties.

Court’s Reasoning

The court applied the doctrine from Lewis v. Reynolds, which states that an overpayment must exceed the amount that could have been properly assessed, even if assessment is barred by the statute of limitations. The court determined Bachner’s correct tax liability for 1984 was $4,096, and added a $205 penalty for negligence under section 6653(a)(1), totaling $4,301. Since Bachner’s withheld taxes were $4,396. 95, the court calculated the overpayment as $95. 95. The court rejected Bachner’s argument that withheld taxes were deposits, citing section 6513(b) which deems withheld taxes as paid by the taxpayer on April 15 of the following year. The court also emphasized that equitable principles support the Commissioner’s right to retain payments up to the correct tax liability.

Practical Implications

This decision clarifies that taxpayers cannot claim full refunds of withheld taxes when the statute of limitations bars assessment, unless the payments exceed the correct tax liability. Practitioners should advise clients that the IRS may retain payments up to the correct tax liability, even if assessment is barred. This ruling may deter taxpayers from filing frivolous returns claiming no tax liability in hopes of recovering withheld taxes. Subsequent cases have applied this principle, confirming that the IRS can retain withheld taxes up to the correct tax liability despite the statute of limitations.

© 2025 SCOTUSreports.com. All rights reserved.