Cabirac v. Commissioner of Internal Revenue, 120 T. C. 163 (U. S. Tax Ct. 2003)

In Cabirac v. Commissioner, the U. S. Tax Court ruled that Michael A. Cabirac's tax forms with zero entries for 1997 and 1998 were not valid returns, leading to upheld deficiencies and additions to tax. The court found his arguments frivolous, affirming that wages, interest, and distributions are taxable, and imposed a penalty for maintaining a groundless position. This decision underscores the necessity for honest and reasonable attempts at tax compliance.

Parties

Michael A. Cabirac, the petitioner, represented himself pro se throughout the proceedings. The respondent, the Commissioner of Internal Revenue, was represented by James N. Beyer. The case was heard by the United States Tax Court.

Facts

Michael A. Cabirac received wages, interest, and distributions from a pension fund and individual retirement accounts (IRAs) in 1997 and 1998. He filed Forms 1040 and 1040A for those years, respectively, but entered zeros on the relevant lines for computing his tax liability. Cabirac argued that the income tax is an excise tax and that he was not engaged in taxable excise activities. The Commissioner did not accept these forms as valid returns because they contained no information upon which Cabirac's tax liability could be determined. The Commissioner prepared substitutes for return (SFRs) for Cabirac for 1997 and 1998, which also contained zeros on the relevant lines. Subsequently, the Commissioner mailed a notice of proposed tax adjustments to Cabirac, with an attached revenue agent's report.

Procedural History

The Commissioner determined deficiencies in Cabirac's Federal income taxes and additions to tax for the years 1997 and 1998. After Cabirac filed his returns with zero entries, the Commissioner rejected them and prepared SFRs. A notice of proposed adjustments, including a revenue agent's report, was sent to Cabirac. After Cabirac did not agree to the proposed adjustments, the Commissioner issued a notice of deficiency on September 28, 2001. Cabirac then petitioned the United States Tax Court, which conducted a trial and rendered its decision on April 22, 2003.

Issue(s)

Whether Cabirac received taxable income in the amounts determined by the Commissioner for the years 1997 and 1998?

Whether Cabirac is liable for a 10-percent additional tax on the taxable amounts of his pension and IRA distributions?

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Whether Cabirac is liable for additions to tax under sections 6651(a)(1), 6651(a)(2), and 6654 of the Internal Revenue Code?

Whether a penalty under section 6673(a)(1) of the Internal Revenue Code should be imposed on Cabirac?

Rule(s) of Law

Gross income includes all income from whatever source derived, including wages, interest, and pension and IRA distributions. *See* 26 U. S. C. § 61(a). A valid tax return must contain sufficient data to calculate tax liability, purport to be a return, represent an honest and reasonable attempt to satisfy tax law requirements, and be executed under penalties of perjury. *See Beard v. Commissioner*, 82 T. C. 766 (1984), aff'd, 793 F. 2d 139 (6th Cir. 1986). Additions to tax under sections 6651(a)(1), 6651(a)(2), and 6654 are applicable for failure to file, failure to pay, and failure to pay estimated taxes, respectively. A penalty under section 6673(a)(1) can be imposed for maintaining frivolous or groundless positions in proceedings.

Holding

The court held that Cabirac received taxable income in the amounts determined by the Commissioner for 1997 and 1998. Cabirac is liable for a 10-percent additional tax on the taxable amounts of his pension and IRA distributions. Cabirac is liable for additions to tax under sections 6651(a)(1) and 6654 for failure to file and failure to pay estimated taxes, respectively. The additions to tax under section 6651(a)(2) do not apply because there was no tax shown on any returns attributable to Cabirac, and the SFRs prepared by the Commissioner did not meet the requirements for a return under section 6020(b). A penalty of $2,000 was imposed under section 6673(a)(1) for maintaining a frivolous position.

Reasoning

The court reasoned that Cabirac's argument that income tax is an excise tax and he was not engaged in taxable excise activities was frivolous and had been rejected in previous cases. The court affirmed that wages, interest, and distributions constitute taxable income under sections 61(a), 61(a)(4), 61(a)(11), and 408(d)(1). The court found that the forms Cabirac filed, with zero entries, did not constitute valid returns because they did not contain sufficient data to calculate tax liability and did not represent an honest and reasonable attempt to satisfy tax law requirements. The court rejected the Commissioner's argument that the SFRs, when considered with the subsequent notice of proposed adjustments and revenue agent's report, constituted valid returns under section 6020(b), as these documents were not attached to the SFRs and were not subscribed as required. The court held that the Commissioner did not meet the burden of production with respect to the appropriateness of imposing the section 6651(a)(2) addition to tax. Finally, the court imposed a penalty under section 6673(a)(1) due to Cabirac's frivolous position,

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which was maintained primarily for delay.

Disposition

The court entered judgment for the Commissioner except for the additions to tax under section 6651(a)(2), which do not apply.

Significance/Impact

This case reaffirms the principle that a tax return must contain sufficient data to calculate tax liability and represent an honest and reasonable attempt to comply with tax laws. It also highlights the court's willingness to impose penalties for maintaining frivolous positions. The decision provides clarity on the treatment of SFRs and the requirements for valid returns under section 6020(b). It has implications for taxpayers who attempt to avoid tax liability by filing forms with zero entries and for the Commissioner's procedures in preparing SFRs. Subsequent cases have cited Cabirac for its holdings on the validity of returns and the application of penalties under section 6673(a)(1).

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