535 Ramona Inc. v. Commissioner, 135 T. C. 353 (2010)

The U. S. Tax Court ruled against 535 Ramona Inc. in a dispute over Federal Unemployment Tax Act (FUTA) liabilities for 1996. The company failed to prove it made required contributions to California's unemployment fund, thus not qualifying for credits that could offset its FUTA tax. The decision underscores the importance of maintaining clear records and the burden on taxpayers to substantiate claimed tax credits, impacting how businesses manage their tax obligations and document payments to state funds.

Parties

535 Ramona Inc. (Petitioner) v. Commissioner of Internal Revenue (Respondent). Petitioner at trial level and on appeal to the United States Tax Court.

Facts

535 Ramona Inc. was organized in California in 1996 and operated a restaurant, Nola, in Palo Alto. The company used a payroll service, ExpressPay Plus, to manage its payroll for the second, third, and fourth quarters of 1996. On its 1996 Form 940-EZ, 535 Ramona reported contributions of $17,553 to the California unemployment fund, claiming a total FUTA tax liability of $2,582 and deposits of the same amount. However, the California Employment Development Department (EDD) reported no record of 535 Ramona paying any wages or contributions for 1996. Following this discrepancy, the IRS assessed additional FUTA tax, penalties, and interest against 535 Ramona. The company challenged the IRS's right to proceed with collection, asserting it had no outstanding liability after accounting for credits under section 3302 of the Internal Revenue Code.

Procedural History

The IRS issued a Final Notice of Intent to Levy and Notice of Your Right to a Hearing to 535 Ramona on February 6, 2006, for unpaid FUTA tax, interest, and penalties. 535 Ramona timely requested a collection due process (CDP) hearing, contending that its originally filed 940-EZ was correct and requesting credit and penalty abatement. A CDP hearing occurred in August 2006. On February 20, 2007, the Appeals Office issued a Notice of Determination Concerning Collection Action(s), sustaining the levy notice. 535 Ramona timely filed a petition and an amended petition with the U. S. Tax Court, challenging the underlying tax liability and the collection action. The Tax Court applied a de novo standard of review to the case.

Issue(s)

Whether 535 Ramona Inc. is entitled to credits under section 3302 of the Internal Revenue Code for contributions to the California unemployment fund, thereby reducing its liability for FUTA tax for 1996?

© 2025 SCOTUSreports.com. All rights reserved.

Whether the Appeals Office's determination to proceed with collection of the assessments against 535 Ramona Inc. for 1996 should be sustained?

Rule(s) of Law

Section 3301 of the Internal Revenue Code imposes a 6. 2% excise tax on employers for wages paid to employees, subject to a $7,000 annual wage cap. Section 3302 allows credits against this tax for contributions made to state unemployment funds, with a normal credit for actual contributions and an additional credit for contributions at the highest state rate or 5. 4%, whichever is lower. These credits are limited to 90% of the FUTA tax. Taxpayers challenging underlying liability in a CDP hearing are subject to a de novo review, and the burden of proof lies with the taxpayer. See *Sego v. Commissioner*, 114 T. C. 604, 610 (2000); *Goza v. Commissioner*, 114 T. C. 176, 181-182 (2000).

Holding

The court held that 535 Ramona Inc. failed to carry its burden of proving entitlement to any credit under section 3302 of the Internal Revenue Code for 1996. Consequently, the court sustained the Appeals Office's determination to proceed with collection of the assessments against 535 Ramona Inc. for 1996.

Reasoning

The court applied a de novo standard of review, emphasizing that 535 Ramona bore the burden of proving its entitlement to credits under section 3302. The court found that 535 Ramona failed to provide sufficient evidence that it made any unemployment insurance contributions to California for 1996. The company's reliance on payroll service records and bank statements did not conclusively prove that the amounts withdrawn were paid to California. Moreover, the EDD's records indicated no contributions or wages reported by 535 Ramona for 1996. The court rejected 535 Ramona's arguments for normal and additional credits under section 3302 due to lack of proof of actual payments and failure to meet certification requirements for the additional credit. The court also upheld the penalties assessed by the IRS, as 535 Ramona did not challenge them or raise a reasonable cause defense. The court dismissed jurisdictional concerns over the notice of tax lien, as it was not addressed in the notice of determination or the petition.

Disposition

The court sustained the Appeals Office's determination affirming the levy notice against 535 Ramona Inc. for 1996, allowing the IRS to proceed with collection of the disputed liability.

Significance/Impact

This decision reinforces the importance of taxpayers maintaining detailed records to

© 2025 SCOTUSreports.com. All rights reserved.

substantiate tax credits claimed against federal taxes. It clarifies that the burden of proof rests with the taxpayer in disputes over underlying tax liability in CDP hearings. The case also highlights the critical role of state certification in claiming additional credits under section 3302 of the Internal Revenue Code. For legal practice, it serves as a reminder to advise clients on the importance of accurate record-keeping and timely payment of state unemployment contributions to avoid similar disputes with the IRS. Subsequent courts have cited this case for its interpretation of the burden of proof in tax disputes and the application of section 3302 credits.

© 2025 SCOTUSreports.com. All rights reserved.