Snow v. Commissioner, 141 T. C. 238 (2013)

In Snow v. Commissioner, the U. S. Tax Court ruled on the correct computation of an underpayment for the purposes of applying the 20% accuracy-related penalty under I. R. C. § 6662. The court upheld the validity of regulations used to determine underpayment and clarified how to calculate it when a taxpayer overstates withholdings. This case is significant for establishing the method of calculating underpayments that include overstated withholding credits, impacting how penalties are assessed in similar situations.

Parties

Glenn Lee Snow (Petitioner) was the taxpayer and filed his case pro se. The Commissioner of Internal Revenue (Respondent) was represented by Martha J. Weber.

Facts

Glenn Lee Snow, a musician, filed his 2007 federal income tax return claiming zero tax liability and reported $16,684. 65 in federal income tax withholdings. However, this amount included $5,562. 13 in Social Security and Medicare taxes, which were incorrectly reported as federal income tax withholdings. The correct amount of federal income tax withheld was $11,117. 65. Consequently, Snow received a refund of $16,684. 65, which included $5,567 for which no federal income tax had been withheld. The IRS determined that Snow was liable for a $12,968 tax and a $3,707 accuracy-related penalty under I. R. C. § 6662(a) due to negligence and substantial understatement of income tax.

Procedural History

Snow’s case was initially addressed in a memorandum opinion, Snow v. Commissioner, T. C. Memo 2013-114, where the court found that Snow’s wages were includable in his income and held him liable for the accuracy-related penalty and an additional penalty under I. R. C. § 6673(a). Following this, the parties disputed the computation of the underpayment for the accuracy-related penalty, leading to the supplemental opinion in 141 T. C. 238. The Tax Court applied de novo review to the legal issues concerning the computation of the underpayment.

Issue(s)

Whether the Commissioner correctly calculated Snow’s underpayment for the purposes of applying the accuracy-related penalty under I. R. C. § 6662(a)?

Rule(s) of Law

I. R. C. § 6662(a) imposes a 20% accuracy-related penalty on any underpayment attributable to negligence or substantial understatement of income tax. I. R. C. §

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6664(a) defines “underpayment” as the amount by which any tax imposed exceeds the excess of the sum of the amount shown as tax on the return plus amounts not shown but previously assessed, over the amount of rebates made. Treasury Regulation § 1. 6664-2 provides the formula for calculating underpayment, which includes adjustments for overstated withholding credits.

Holding

The Tax Court held that the Commissioner correctly calculated Snow’s underpayment for purposes of applying the accuracy-related penalty under I. R. C. § 6662(a). The court determined that Snow’s underpayment was $18,535, which included his tax liability of $12,968 plus the $5,567 overstatement of withholding credits.

Reasoning

The court’s reasoning centered on the application of Treasury Regulation § 1. 6664-2, which was upheld as valid in Feller v. Commissioner, 135 T. C. 497 (2010). The regulation provides that the amount shown as tax on the return is reduced by the excess of the amount shown as withheld over the amount actually withheld. In Snow’s case, this resulted in a negative $5,567 shown as tax on his return. The court further clarified that amounts collected without assessment under § 1. 6664-2(d) must not have been refunded to the taxpayer. Since Snow received a refund of $16,684. 65, which included the overstated withholding, there were no amounts collected without assessment. The court also interpreted “rebates previously made” to mean rebates issued before the return was filed, and since no such rebates were made to Snow, the amount of rebates was $0. The court’s calculation of the underpayment aligned with the regulation and ensured that the penalty was based on the actual revenue loss to the government due to Snow’s actions.

Disposition

The Tax Court issued an order and entered a decision in favor of the Commissioner, affirming the calculation of the underpayment and the resulting accuracy-related penalty of $3,707.

Significance/Impact

Snow v. Commissioner is significant for its clarification of the calculation of underpayments under I. R. C. § 6662, particularly in cases involving overstated withholding credits. The decision reinforces the validity and application of Treasury Regulation § 1. 6664-2, providing a clear method for computing underpayments in such scenarios. This ruling has practical implications for tax practitioners and taxpayers, as it establishes a precedent for assessing accuracy-related penalties when withholdings are misreported. Subsequent cases have referenced Snow to guide the calculation of underpayments, emphasizing its doctrinal importance in tax

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