Snow v. Commissioner, 141 T. C. No. 6 (U. S. Tax Ct. 2013)

In Snow v. Commissioner, the U. S. Tax Court upheld the IRS's computation of an underpayment for the purpose of imposing a 20% accuracy-related penalty under I. R. C. § 6662(a). The court clarified how to calculate an underpayment when a taxpayer overstates tax withholdings, affirming that such overstatements increase the underpayment. This ruling follows the precedent set in Feller v. Commissioner and emphasizes the importance of accurately reporting tax withholdings on returns, impacting how tax liabilities and penalties are assessed.

Parties

Glenn Lee Snow, the petitioner, represented himself pro se. The respondent was the Commissioner of Internal Revenue, represented by Martha J. Weber.

Facts

Glenn Lee Snow filed his 2007 federal income tax return, claiming a refund of $16,684. 65 based on reported federal income tax withholdings of the same amount. However, Snow incorrectly included $5,562. 13 of Social Security and Medicare tax withholdings as federal income tax withholdings on his return. The IRS determined that only $11,117. 65 had been withheld as federal income tax, resulting in Snow receiving an erroneous refund of $5,567. Snow's actual tax liability for the year was $12,968, leading the IRS to calculate an underpayment of $18,535, which included the tax liability plus the erroneous refund, and assessed a 20% accuracy-related penalty of $3,707 under I. R. C. § 6662(a).

Procedural History

Snow filed his 2007 tax return and received a refund of $16,684. 65. The IRS issued a notice of deficiency, asserting that Snow owed additional taxes due to the overstatement of withholdings and was liable for an accuracy-related penalty. Snow petitioned the U. S. Tax Court to challenge the computation of his underpayment for the penalty. The court had previously found Snow liable for the tax and penalties in a Memorandum Opinion (T. C. Memo. 2013-114). In this case, the Tax Court was tasked with reviewing the IRS's computation of the underpayment for the accuracy-related penalty under Rule 155. Snow did not dispute his tax liability or the section 6673(a) penalty but objected to the computation of the section 6662(a) penalty.

Issue(s)

Whether the IRS correctly calculated the underpayment for purposes of imposing the accuracy-related penalty under I. R. C. § 6662(a) when the taxpayer overstated federal income tax withholdings on his return?

Rule(s) of Law

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Under I. R. C. § 6662(a), a 20% accuracy-related penalty is imposed on any portion of an underpayment attributable to negligence or substantial understatement of income tax. The term “underpayment” is defined in I. R. C. § 6664(a) and further clarified by Treasury Regulation § 1. 6664-2. Specifically, Treasury Regulation § 1. 6664-2(c)(1) reduces the amount shown as tax on the return by the excess of the amount shown as withheld over the amounts actually withheld. The court in Feller v. Commissioner, 135 T. C. 497 (2010), upheld the validity of this regulation.

Holding

The U. S. Tax Court held that the IRS correctly calculated Snow’s underpayment for purposes of the accuracy-related penalty under I. R. C. § 6662(a). The underpayment was determined to be $18,535, which included Snow’s tax liability of $12,968 plus the $5,567 overstatement of withholdings. Consequently, the accuracy-related penalty of $3,707 (20% of $18,535) was upheld.

Reasoning

The court’s reasoning focused on the application of Treasury Regulation § 1. 6664-2, which provides a formula for calculating an underpayment. The court emphasized that the amount shown as tax on Snow’s return was reduced by the excess of the amount he claimed as withheld over the amounts actually withheld, resulting in a negative figure of $5,567. This negative amount was then added to the tax imposed to determine the underpayment. The court’s decision followed the precedent set in Feller v. Commissioner, which upheld the validity of the regulation. The court reasoned that Snow’s overstatement of withholdings increased the underpayment, and thus the accuracy-related penalty was correctly computed. The court also clarified the meaning of “rebates” and “amounts collected without assessment” under the regulation, finding that Snow had no such amounts that would reduce the underpayment. The court’s interpretation ensured that the penalty was based on the actual amount of revenue the government was deprived of due to Snow’s return.

Disposition

The court affirmed the IRS’s computation of the underpayment for the accuracy-related penalty and entered a decision for the respondent.

Significance/Impact

Snow v. Commissioner reinforces the importance of accurately reporting tax withholdings on returns, as overstatements can significantly impact the calculation of underpayments and subsequent penalties. The decision follows and expands upon the precedent set in Feller v. Commissioner, providing further guidance on the application of Treasury Regulation § 1. 6664-2. This ruling affects tax practitioners and taxpayers by clarifying how the IRS computes underpayments for penalty purposes, particularly when errors in withholding amounts are involved. The case underscores the need for meticulous attention to detail in tax reporting to avoid increased liabilities and penalties.

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