Roberts v. Commissioner, 141 T. C. No. 19 (U. S. Tax Court 2013)

In Roberts v. Commissioner, the U. S. Tax Court ruled that unauthorized IRA withdrawals, made without the account owner's knowledge and used solely by his former wife, were not taxable to him. Andrew Wayne Roberts' ex-wife forged his signature to withdraw funds from his IRAs, using the proceeds for her benefit. The court determined that Roberts was neither a 'payee' nor 'distributee' under I. R. C. sec. 408(d), as he did not receive or benefit from the distributions. This decision clarifies that victims of such unauthorized transactions are not liable for taxes on stolen funds, impacting how similar cases might be handled in the future.

Parties

Andrew Wayne Roberts was the Petitioner, and the Commissioner of Internal Revenue was the Respondent. Roberts was the plaintiff at the trial level and the appellant in the appeal to the U. S. Tax Court.

Facts

In 2008, Cristie Smith, Roberts' former wife, submitted forged withdrawal requests to SunAmerica and ING, companies administering Roberts' IRAs. The requests were processed, and checks were issued to Roberts, but Smith received and endorsed them using forged signatures, depositing them into a joint account she exclusively used. Roberts discovered the unauthorized withdrawals only in 2009, after receiving Forms 1099-R. Smith also filed a fraudulent tax return for Roberts for 2008, claiming single filing status and omitting the IRA distributions. The Commissioner determined that Roberts was liable for taxes on the IRA withdrawals, an additional tax under I. R. C. sec. 72(t), and an accuracy-related penalty under I. R. C. sec. 6662(a).

Procedural History

The Commissioner issued a notice of deficiency to Roberts on August 2, 2010, asserting a tax deficiency and penalty for 2008. Roberts petitioned the U. S. Tax Court for a redetermination of the deficiency. The Commissioner later amended the answer to increase the deficiency, attributing it to an incorrect filing status. The Tax Court reviewed the case de novo, applying the preponderance of evidence standard.

Issue(s)

Whether Roberts must include in his 2008 taxable income unauthorized withdrawals from his IRAs made by his former wife without his knowledge or permission?
Whether Roberts is liable for the additional tax under I. R. C. sec. 72(t) on early distributions from qualified retirement plans?
What is Roberts' proper filing status for 2008?
Is Roberts liable for the accuracy-related penalty under I. R. C. sec. 6662(a)?

Rule(s) of Law

I. R. C. sec. 408(d)(1) provides that any amount paid or distributed out of an IRA is included in the gross income of the payee or distributee. The court noted that the term ‘payee’ or ‘distributee’ is generally the participant or beneficiary eligible to receive funds from the IRA, but this is not always the case. The court rejected the contention that the recipient of an IRA distribution is automatically the taxable distributee. I. R. C. sec. 72(t) imposes a 10% additional tax on early distributions from qualified retirement plans unless an exception applies. I. R. C. sec. 6662(a) authorizes a penalty for substantial understatement of income tax or negligence.

Holding

The Tax Court held that Roberts was not a ‘payee’ or ‘distributee’ within the meaning of I. R. C. sec. 408(d)(1) for the unauthorized IRA withdrawals, as he did not authorize the withdrawals, did not receive or endorse the checks, and did not benefit from the distributions. Consequently, he was not liable for the tax on these withdrawals or the additional tax under I. R. C. sec. 72(t). The court determined that Roberts’ proper filing status for 2008 was married filing separately, and he was liable for the accuracy-related penalty under I. R. C. sec. 6662(a) to the extent his conceded adjustments resulted in a substantial understatement of income tax.

Reasoning

The court reasoned that the unauthorized nature of the IRA withdrawals, coupled with Roberts’ lack of knowledge and benefit from them, precluded him from being considered a ‘payee’ or ‘distributee’ under I. R. C. sec. 408(d)(1). The court distinguished this case from others where distributions were legally obtained and applied to the taxpayer’s liabilities. The court emphasized that the economic benefit test is crucial in determining gross income, and Roberts received no such benefit from the IRA withdrawals in 2008. The court also rejected the Commissioner’s argument that Roberts ratified the distributions by not asserting a claim under Washington law within one year, noting that any such ratification would not affect the 2008 tax year. The court upheld the Commissioner’s determination on filing status and the accuracy-related penalty based on Roberts’ conceded underreporting of income and incorrect filing status.

Disposition

The Tax Court’s decision was to be entered under Rule 155, which requires the parties to compute the amount of the deficiency and penalty based on the court’s findings and holdings.

Significance/Impact

Roberts v. Commissioner clarifies the treatment of unauthorized IRA withdrawals for tax purposes, establishing that victims of such fraud are not taxable on stolen funds.

This ruling protects taxpayers from bearing the tax burden for unauthorized transactions they did not benefit from. It may influence future cases involving similar unauthorized withdrawals and underscores the importance of the economic benefit test in determining gross income. The case also highlights the need for taxpayers to ensure the accuracy of their tax returns, as Roberts was still liable for penalties due to other errors in his return.

