Vivian L. Rader, et al. v. Commissioner of Internal Revenue, 143 T. C. No. 19 (U. S. Tax Court 2014)

In Vivian L. Rader v. Commissioner, the U. S. Tax Court ruled that the petitioners, who failed to file tax returns for several years, were liable for tax deficiencies and additions to tax as determined by the IRS. The court upheld the IRS's use of substitutes for returns (SFRs) and rejected the petitioners' claims for offsets due to withheld taxes from property sales. The decision highlights the legal obligations of taxpayers to file returns and pay taxes, emphasizing the enforceability of IRS-prepared SFRs and the limitations on claiming credits for withheld taxes in deficiency calculations.

Parties

Vivian L. Rader and Steven R. Rader, the petitioners, were represented pro se. The respondent, the Commissioner of Internal Revenue, was represented by Thomas G. Hodel, Matthew A. Houtsma, Luke D. Ortner, and Robert A. Varra. The cases were consolidated under docket numbers 11409-11, 11476-11, and 27722-11.

Facts

Vivian L. Rader and Steven R. Rader, a married couple, failed to file federal income tax returns for the years 2003 through 2006 and 2008. Steven Rader was a self-employed plumber who earned income from his plumbing business during these years. The IRS conducted an examination and used the bank deposits method to reconstruct the Raders' income, determining that they had substantial unreported income. Additionally, in 2006, the Raders sold two parcels of Colorado real property, from which the title company withheld taxes under IRC section 1445(a), applicable to foreign persons, due to the Raders' failure to provide a taxpayer identification number or certification of non-foreign status. The IRS issued notices of deficiency based on substitutes for returns (SFRs) prepared for the Raders, and later amended the filing status from "single" to "married filing separate," increasing the tax deficiencies and additions to tax.

Procedural History

The IRS issued notices of deficiency to Vivian L. Rader and Steven R. Rader on February 11, 2011, for the tax years 2003 through 2006 and 2008. The Raders filed petitions with the U. S. Tax Court contesting these determinations. The IRS subsequently amended its answer to change the filing status on the SFRs for 2003 through 2006 from "single" to "married filing separate," which increased the proposed deficiencies and additions to tax. The cases were consolidated for trial, briefing, and opinion. At trial, the IRS conceded that any deficiencies, additions to tax, and penalties would be attributed solely to Steven Rader.

Issue(s)

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Whether the IRS's substitutes for returns (SFRs) were valid and sufficient to establish tax deficiencies for the years in issue?

Whether the tax withheld from the 2006 real property sales under IRC section 1445(a) could be used to offset the tax deficiency for that year?

Whether the petitioners' Fifth Amendment claim against testifying about their nonfiling of returns was valid?

Whether the additions to tax under IRC sections 6651(a)(1) and (2) and 6654 were properly imposed?

Rule(s) of Law

IRC section 6020(b) allows the IRS to prepare and execute a return on behalf of a taxpayer who fails to file a return. Such a return must be subscribed, contain sufficient information to compute the taxpayer's tax liability, and purport to be a return. IRC section 6211(a) defines a deficiency as the amount by which the tax imposed exceeds the excess of the amount shown as the tax by the taxpayer on their return, if any, plus amounts previously assessed, over rebates made. IRC section 6211(b)(1) specifies that certain credits, including those under IRC sections 31 and 33, are to be disregarded in determining a deficiency. IRC section 6651(a)(1) and (2) impose additions to tax for failure to file a return and failure to pay the tax shown on a return, respectively. IRC section 6654 imposes an addition to tax for underpayment of estimated tax. IRC section 6673(a)(1) authorizes the Tax Court to impose a penalty on taxpayers who maintain frivolous or groundless positions or institute proceedings primarily for delay.

Holding

The Tax Court held that the substitutes for returns (SFRs) prepared by the IRS were valid and sufficient to establish tax deficiencies for the years in issue. The court also held that the tax withheld from the 2006 real property sales under IRC section 1445(a) could not be used to offset the tax deficiency for that year because it gave rise to a credit under IRC section 33, which must be disregarded in deficiency calculations per IRC section 6211(b)(1). The petitioners' Fifth Amendment claim was rejected. The additions to tax under IRC sections 6651(a)(1) and 6654 were upheld, but the increase in the section 6651(a)(2) addition to tax for 2003 through 2006 was rejected due to the lack of a new, certified SFR. A penalty under IRC section 6673(a)(1) was imposed on Steven Rader for maintaining a frivolous position.

Reasoning

The court's reasoning focused on the validity of the SFRs, the applicability of withholding credits to deficiency calculations, the validity of the petitioners' Fifth Amendment claim, and the imposition of additions to tax. The court found that the SFRs met the requirements of IRC section 6020(b) and case law, as they were

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subscribed, contained sufficient information to compute the tax liability, and purported to be returns. The court rejected the petitioners' argument that the SFRs were invalid due to the absence of a Form 1040 and upheld the IRS's election of "married filing separate" status. Regarding the withholding from the 2006 real property sales, the court determined that it gave rise to a credit under IRC section 33, which, per IRC section 6211(b)(1), must be disregarded in deficiency calculations. The petitioners' Fifth Amendment claim was deemed unfounded as there was no evidence of a criminal investigation, and their nonfiling was a civil matter. The court upheld the additions to tax under IRC sections 6651(a)(1) and 6654, finding no evidence of reasonable cause or lack of willful neglect. However, the increase in the section 6651(a)(2) addition to tax was rejected because the IRS's amendments to answer did not include a new, certified SFR. Finally, the court imposed a penalty under IRC section 6673(a)(1) on Steven Rader for maintaining frivolous positions and attempting to delay the proceedings.

Disposition

The court entered a decision for Vivian L. Rader in docket No. 11409-11, and appropriate decisions were entered in docket Nos. 11476-11 and 27722-11, holding Steven Rader liable for the tax deficiencies and additions to tax as determined by the IRS, except for the increased section 6651(a)(2) addition to tax for 2003 through 2006. A penalty of $10,000 was imposed on Steven Rader under IRC section 6673(a)(1).

Significance/Impact

This case reinforces the legal obligations of taxpayers to file returns and pay taxes, affirming the IRS's authority to prepare substitutes for returns (SFRs) under IRC section 6020(b). It clarifies the treatment of withholding credits under IRC sections 1445(a) and 33 in deficiency calculations, emphasizing that such credits cannot offset deficiencies. The decision also underscores the Tax Court's willingness to impose penalties under IRC section 6673(a)(1) for frivolous positions and attempts to delay proceedings, serving as a deterrent to similar conduct by other taxpayers. The case's doctrinal importance lies in its comprehensive application of tax law principles related to SFRs, deficiency calculations, and taxpayer obligations, providing guidance for future cases involving similar issues.

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