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No More Laughing At TurboTax Defense

I thought the [TurboTax defense](#) was silly, but no more. Now that the Tax Court embraced it in [Olsen v. Commissioner](#), it looks downright legitimate. Treasury Secretary [Tim Geithner](#) provoked guffaws when he used it while primping for the top tax job. Thinking it was among the better tax excuses, it prompted regular Joe taxpayers to try the TurboTax defense too. See [Hopson v. Commissioner](#); [Parker v. Commissioner](#); [Lam and Chang v. Commissioner](#); [Au v. Commissioner](#).

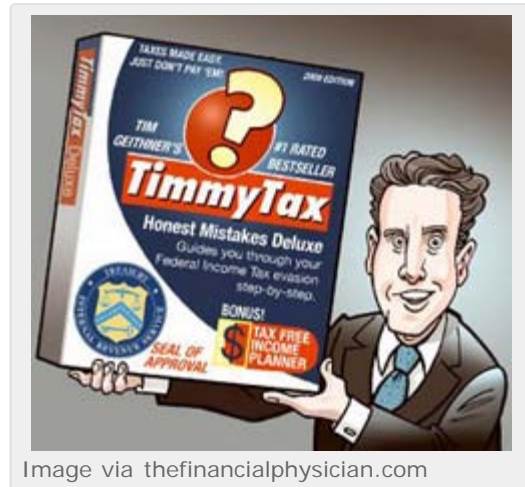


Image via [thefinancialphysician.com](#)

They all failed, but that was then. Now the TurboTax defense deserves some respect. In [Olsen v. Commissioner](#), a patent attorney blamed his tax mistakes on his tax preparation software, saying it should excuse penalties the IRS imposed. Over IRS objections, the Tax Court agreed! See [Tax Court Approves 'Geithner Defense.' Surprising Experts.](#)

Olsen (a government patent attorney) and his wife received interest from a trust that issued a Schedule K-1. Olsen had never dealt with a K-1 before so he upgraded to a more sophisticated tax preparation software, trying to ensure he did it right. Unfortunately, he made a data entry error that prevented the interest he was trying to report from being correctly displayed on his return.

Was this reasonable cause and was Olsen acting in good faith sufficient to avoid penalties? Yes on both counts, said the court. True, this was **Olsen's error**, not the tax software's. That's an important point here.

If the **software** had made the error based on Olsen's proper input, his penalty relief claims would be even better. But **Olsen** made the mistake, not the software. Still, said the court, an **isolated transcription error** doesn't mean he wasn't reasonable and acting in good faith. See [Regulation Section 1.6664-4\(b\)\(1\)](#). In fact, the Tax Court said it found Olsen to be forthright and credible.

Letting his isolated error transcribing the information slide, the court was impressed Olsen was no slouch. Olsen had a government security clearance and underwent periodic background checks for his government job. It's not clear how important those facts are to the decision nor whether more ordinary Joe's can claim the defense too.

The court recites that the most important factor bearing on whether a taxpayer acted with reasonable cause and in good faith is the extent of the taxpayer's effort to assess the proper tax liability. Calling the facts unique, the court found that Olsen fit the reasonable cause and good faith bill.

For more, see:

[TurboTax Defense Works for Patent Attorney](#)

[More Tax Defenses: "I Forgot!"](#)

[Tax Defense: "I Have ADD"](#)

[Using John Edwards' "It Was A Gift" Defense](#)

[TurboTax Is No Twinkie Defense](#)

[Don't Robo-Sign Tax Returns](#)

[Tax Court Rejects "Geithner Defense," Says Reliance on TurboTax Does Not Excuse Taxpayer From Penalty for Errors on Tax Return](#)

[Tax Court Rejects Geithner/TurboTax Defense](#)

Tax Court Again Rejects Geithner/TurboTax Defense

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