INTERNAL REVENUE SERVICE
NATIONAL OFFICE TECHNICAL ADVICE MEMORANDUM

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SBSE Area Director of Compliance

First Taxpayer's Name:
Taxpayer's Address:

Taxpayer's Identification No:

Second Taxpayer's Name:
Taxpayer's Address:

Taxpayer's Identification No:

Year Involved:
Date of Conference:

LEGEND:

Corporation X =

Corporation Y =

ISSUE

Whether Corporation X and Corporation Y are required to file information returns in accordance with § 6050I of the Internal Revenue Code ("Code")?

CONCLUSION

Yes, Corporation X and Corporation Y are required to file information returns in accordance with § 6050I of the Code.

FACTS

Corporation X and Corporation Y each own and manage a fleet of taxicabs that they lease to taxi drivers. The taxi drivers generally use part of their daily cash receipts to pay Corporation X or Corporation Y for the rental of the taxicabs. A driver usually keeps all monies collected during the shift minus the taxicab rental fee. In addition, a taxi driver may choose to purchase fuel from a fleet owner.

Generally, the taxicab drivers lease the taxicabs in 12 hour shifts. Each driver signs one lease agreement regardless of the number of times a driver leases a taxi. The lease is kept in a file maintained by the fleet owner. According to the lease, cars are dispatched for 12 hours and drivers are responsible for full lease fees once a car is dispatched to them by the fleet owner. The lease also states "steady drivers failing to come in or call, will be charged for the shift!" The terms of the lease also state that "in no event may this agreement be continued in effect for more than FIVE months from the date hereof." The drivers submit daily trip tickets which include information pertaining to the driver, mileage, and information surrounding each trip, including the fare.

Corporation X and Corporation Y argue that each lease is an individual and separate transaction unrelated to any other lease. As such, the corporations assert they never receives more than $10,000 in cash from any one driver for a taxi in a 12 month period. As a result, neither Corporation X nor Corporation Y have filed information returns for 1999 pursuant to § 6050I. The Internal Revenue Service ("Service") has applied a failure to file penalty under § 6721 because no reasonable cause exists for the failure to file the required returns.

LAW AND ANALYSIS

Section 6050I(a) of the Code provides that any person who is engaged in a trade or business, and who, in the course of such trade or business, receives more than $10,000 in cash in one transaction (or 2 or more related transactions), shall make the return described in § 6050I(b) with respect to such transaction (or related transactions) at such time as the Secretary may by regulations prescribe. Form 8300 is the form required to comply with this provision.

In addition, § 1.6050I-1(a)(2) of the Regulations for Procedure and Administration ("Regulations") requires reporting of cash in excess of $10,000 received by a person for the account of another. Thus, for example, a person who collects delinquent accounts receivable for an automobile dealer must report with respect to the receipt of cash in excess of $10,000 from the collection of a particular account even though the proceeds of the collection are credited to the account of the automobile dealer (i.e., where the rights to the proceeds from the account are retained by the automobile dealer and the collection is made on a fee-for-service basis).

Section 1.6050I-1(b) stipulates that the receipt of multiple cash deposits of cash installment payments (or other similar payments or prepayments) on or after January 1, 1990, relating to a single transaction (or two or more related transactions), is reported as set forth in § 1.6050I-1(b)(1) through (b)(3). Section 1.6050I-1(b)(1) continues that if the initial payment is in excess of $10,000, the recipient must report the initial payment within 15 days of its receipt. Section 1.6050I-1(b)(2) adds that if the initial payment does not exceed $10,000 then the recipient must aggregate the initial payment and subsequent payments made within one year of the initial payment until the aggregate amount exceeds $10,000, and report with respect to the aggregate amount within 15 days after receiving the payment that causes the aggregate amount to exceed $10,000. Section 1.6050I-1(b)(3) states that, in addition to any other required report, a report must be made each time that previously unreportable payments made within the 12-month period with respect to a single transaction (or two or more related transactions), individually or in the aggregate, exceed $10,000.

Section 1.6050I-1(c)(7)(i) defines the term “transaction” as the underlying event precipitating the payer’s transfer of cash to the recipient. The term “transaction” includes a rental of real or personal property. A transaction may not be divided into multiple transactions in order to avoid reporting under § 6050I.

Section 1.6050I-1(c)(7)(ii) defines “related transactions” as any transaction conducted between a payer (or its agent) and a recipient of cash in a 24-hour period. Additionally, transactions conducted between a payer (or its agent) and a cash recipient during a period of more than 24 hours are related if the recipient knows or has reason to know that each transaction is one of a series of connected transactions.

Corporation X and Corporation Y make several arguments for why the 12 hour taxicab leases are not subject to the filing requirements of § 6050I. First, Corporation X and Corporation Y argue that the 12 hour leases are not a series of related transactions for which a corporation would know or have reason to know that the leases are one continuous transaction. However, the corporations acknowledge it is possible that a specific driver may lease a car for more than one 12 hour shift in succession where the aggregate lease payments would exceed $10,000. The corporations argue that the lease arrangements with the drivers do not require any firm or extended commitment by the drivers. The corporation or the driver may terminate the lease agreement at any time. Therefore, each lease is considered a separate and unrelated to any prior or subsequent lease.

As stated above, § 6050I(a) requires that any person engaged in a trade or business who receives more than $10,000 cash in one transaction, or two or more related transactions, shall file information returns. Section 1.6050I-1(c)(7)(i) of the regulations defines the term “transaction” as including the rental of personal property. As a result, the lease or rental of a taxicab is a transaction.

Related transactions include transactions conducted between a payer and a cash recipient during a period of more than 24 hours if the recipient knows or has reason to know that each transaction is one of a series of connected transactions. Treas. Reg. §1.6050I-1(c)(7)(ii). In this case, the lease itself contains language indicating that the 12 hour shifts are related transactions. First, the lease uses the phrase "steady driver." Second, the lease contains a clause that the agreement will not exceed five months. In addition, the driver signs only one lease regardless of the number of times the driver leases a taxi. The driver then submits daily trip tickets which all relate to the one lease agreement on file. All of the above facts indicate the parties' intent to establish a continuous relationship. Accordingly, the Corporation X and Corporation Y know or have reason to know that the leases are connected transactions.

Corporation X and Corporation Y also argue that § 6050I does not apply to them because the primary purpose of § 6050I was to prevent transactions involving large quantities of cash from assisting smugglers and drug dealers in laundering profits from illegal activities. However, according to the legislative history, § 6050I was added to the Code to increase income tax reporting and to reduce debt. For 1981, the Service estimated that taxpayers filing returns failed to report $134 billion of income and non-filers failed to report $115 billion. See, Deficit Reduction Act of 1984, S. Rep. No. 98-169, v.1, at 429 (1984). These numbers reduced revenue receipts by $55 billion. Of that number, $9 billion resulted from unreported income connected with illegal activities. Id. Therefore, while, Congress enacted § 6050I to aid in preventing money laundering, the main purpose of § 6050I was to increase income tax reporting.

Finally, Corporation X and Corporation Y argue that tracing cash at this stage would not assist in the reporting of taxi driver's income. However, the reporting of cash received from drivers may lead to more accurate reporting by the drivers, therefore, accomplishing the purpose.

Based on the above analysis, Corporation X and Corporation Y are subject to the filing requirements of § 6050I of the Code.

A copy of this technical advice memorandum is to be given to the taxpayers. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.