Docusign Envelope ID: D96EF9C6-5A6E-4F96-9DA0-23C53922E395

OFFICE OF TAX APPEALS

STATE OF CALIFORNIA

In the Matter of the Appeal of: **INVESTORS ALLEY CORP.**	)	OTA Case No. 240215306

OPINION

Representing the Parties:

For Appellant: Cassandra L. Tuchscher, Attorney
Lance Einstein, Attorney

For Respondent: Noel Garcia-Rosenblum, Attorney
Brad Countinho, Assistant Chief Counsel

V. LONG, Administrative Law Judge: Pursuant to Revenue and Taxation Code (R&TC) section 19324, Investors Alley Corp. (appellant) appeals an action by respondent Franchise Tax Board (FTB) denying appellant's claim for refund of $74,782.05[1] for the 2021 tax year.

Office of Tax Appeals (OTA) Panel Members Veronica I. Long, Asaf Kletter, and Greg Turner held a virtual oral hearing for this matter on January 15, 2026. At the conclusion of the hearing, the record was closed, and this matter was submitted for an opinion pursuant to California Code of Regulations, title 18, section 30209(b).

ISSUES

1. Whether appellant has established a basis to abate the late payment penalty.
2. Whether appellant has established a basis to abate the underpayment of the estimate tax penalty (estimated tax penalty).

FACTUAL FINDINGS

1. Appellant is an S corporation with a sole shareholder whose tax return was due on March 15, 2022.

[1]The record reflects that the amount of the claim for refund was $74,782.05, however FTB's denial of the claim states that the amount in dispute is $74,781.24. Because this appears to be a mathematical error and immaterial to the appeal, the larger figure will be used for purposes of this opinion.

2. On September 12, 2022, appellant filed its Form 100S, 2021 S Corporation Franchise or Income Tax Return (return). Appellant made a pass-through entity elective tax (PTET) election, reporting total tax of $909,728, estimated tax payments of $2,700, and self-assessing penalties and interest of $15,233. Appellant made a payment of $922,261 with its return.
3. FTB accepted the return, revised appellant's estimated tax payments to $4,500 to reflect its records, and issued appellant a Return Information Notice imposing a $2,363.81 estimated tax penalty and $72,418.24 late payment penalty.
4. Appellant requested that FTB waive the penalties for reasonable cause, but FTB denied appellant's request.
5. Appellant paid the penalties in full and filed a claim for refund. FTB denied appellant's claim. This timely appeal follows.

DISCUSSION

Issue 1: Whether appellant has established a basis to abate the late payment penalty.

R&TC section 19132 imposes a late payment penalty when a taxpayer fails to pay the amount shown as due on the return by the date prescribed for the payment of the tax. The late payment penalty may be abated if the taxpayer shows that the failure to make a timely payment of tax was due to reasonable cause and not willful neglect. (R&TC, § 19132(a)(1).) Appellant does not dispute the imposition or computation of the late payment penalty. Therefore, the only issue is whether appellant has demonstrated reasonable cause for its failure to timely pay the PTET by the due date.

To establish reasonable cause for the late payment of tax, a taxpayer must show that the failure to make a timely payment of the proper amount of tax occurred despite the exercise of ordinary business care and prudence. (*Appeal of Moren*, 2019-OTA-176P.) The taxpayer bears the burden of proving that an ordinarily intelligent and prudent businessperson would have acted similarly under the circumstances. (*Ibid*.)

Appellant contends that the late payment arose because it made the newly enacted PTET election and mistakenly made the payment of tax on the sole shareholder's individual tax account rather than on appellant's entity-level account. It is unclear whether this mistake arose from the sole shareholder's oversight (i.e., making the PTET payment on the wrong account) or on the advice of appellant's CPA. To the extent the late payment was the result of an oversight, the failure to timely remit the balance due on a tax liability caused by an oversight does not, by itself, constitute reasonable cause. (*Appeal of Friedman*, 2018-OTA-077P.)

To the extent that late payment arose from the advice of appellant's CPA, a taxpayer may establish that reasonable cause exists if the taxpayer can show that it reasonably relied on a tax professional for substantive tax advice and that the following conditions are met: (1) the person relied on by the taxpayer is a tax professional with competency in the subject tax law; and (2) the tax professional's advice is based on the taxpayer's full disclosure of relevant facts and documents. (*Appeal of Summit Hosting LLC*, 2021-OTA-216P.) There is no evidence in the record documenting the content, or timing, of any substantive advice from appellant's advisor on which appellant may have relied regarding appellant's payment of the PTET. Appellant merely states that it relied on its CPA's advice that payments on its sole shareholder's personal account with FTB would apply to appellant's entity-level tax liability. Unsupported assertions are not sufficient to satisfy a taxpayer's burden of proof. (*Appeal of Moren*, *supra.*)

Appellant next asserts that imposition of a penalty is inequitable because FTB had the funds due but the funds were simply under the wrong account, i.e., the personal account of appellant's sole shareholder, rather than appellant's account.[2] Appellant contends that it acted in good faith and made a mistake, and upon learning of its mistake, appellant immediately paid the tax due. However, the reasonable cause standard requires appellant to show that it exercised ordinary business care and prudence. (*Appeal of Moren*, *supra*.) The determination of whether reasonable cause exists for the late payment requires an analysis of an appellant's actions leading up to the late payment, the timing of those actions, and whether they reflect ordinary business care and prudence, such as an ordinarily intelligent and prudent businessperson would have performed under similar circumstances. (*Ibid*.) While it is undisputed that appellant derived no benefit from the late payment and that FTB was unharmed by the late payment, that fact alone does not establish that that appellant's actions were those of an ordinarily intelligent and prudent businessperson.

Appellant asserts that ignorance of the law may constitute reasonable cause where a taxpayer was unaware of a requirement and could not reasonably be expected to know of the requirement, and that the reasonable cause standard requires only that the taxpayer make reasonable efforts to determine their tax obligations. However, ignorance or misunderstanding of the law generally does not excuse a taxpayer's noncompliance with California tax laws. (*Appeals of Cremel and Koeppel,* 2021-OTA-222P, citing *Appeal of Diebold, Inc.* (83-SBE-002)

[2] Ordinarily, a corporation is regarded as a legal entity, separate and distinct from its stockholders, officers, and directors, with separate and distinct liabilities and obligations. (*Eleanor Licensing LLC v. Classic Recreations LLC* (2018) 21 Cal.App.5th 599.)

1983 WL 15389.) Accordingly, appellant has not established its failure to pay timely occurred despite the exercise of ordinary business care and prudence.

Issue 2: Whether appellant has established a basis to abate the estimated tax penalty.

Appellant does not dispute the imposition or computation of the estimated tax penalty. Appellant makes the same argument that the penalty should be abated for reasonable cause. However, there is no general reasonable cause exception to the imposition of the estimated tax penalty. (*Appeal of Saltzman*, 2019-OTA-070P.) Accordingly, appellant has not established a basis to abate the estimated tax penalty.

HOLDINGS

1. Appellant has not established a basis to abate the late payment penalty.
2. Appellant has not established a basis to abate the estimated tax penalty.

DISPOSITION

FTB's denial of appellant's claim for refund is sustained.

Signed by:
Veronica I. Long
32D46B0C49C949F...
Veronica I. Long
Administrative Law Judge

We concur:

DocuSigned by:
Asaf Kletter
D17AEDDCAAB045B...
Asaf Kletter
Administrative Law Judge

Signed by:
Greg Turner
1B8F50433F1D4D5...
Greg Turner
Administrative Law Judge

Date Issued: 4/10/2026