Sanzogno v. Commissioner, 60 T. C. 321 (1973)

A Form 1040C filed by a departing alien whose taxable year is terminated by the IRS can constitute a valid tax return for purposes of starting the statute of limitations on assessment and allowing deductions.

Summary

Nino Sanzogno, an Italian citizen, visited the U. S. for 24 days in 1965 to conduct an orchestra and filed Form 1040C upon departure. The IRS terminated his taxable year and issued a compliance certificate. The key issue was whether Form 1040C constituted a return, triggering the statute of limitations and allowing deductions. The court held that since Sanzogno's taxable year was terminated and not reopened, Form 1040C was a valid return, thus the statute of limitations had expired and deductions were allowable. This ruling underscores the significance of the IRS's termination of a taxable year for departing aliens.

Facts

Nino Sanzogno, an Italian citizen and resident, entered the U. S. on September 24, 1965, for 24 days to conduct the Lyric Opera of Chicago. He earned $7,896. 40, from which $1,800 was withheld. On October 15, 1965, Sanzogno filed Form 1040C, reporting his income and claiming deductions. The IRS examined the return, disallowed some deductions, and terminated his taxable year, issuing a certificate of compliance. Sanzogno did not file Form 1040B for 1965 nor return to the U. S. that year. In 1969, the IRS issued a deficiency notice for 1965 and 1966, more than three years after the Form 1040C was filed.

Procedural History

Sanzogno filed a motion to sever the issue of whether his Form 1040C for 1965 constituted a return. The Tax Court granted the motion and heard the case on the severed issue in December 1971, based on stipulated facts. The court then issued its opinion in June 1973, holding that the Form 1040C was a valid return for the terminated taxable year.

Issue(s)

1. Whether the Form 1040C filed by Sanzogno constitutes an income tax return for purposes of commencing the period of limitations on assessment under section 6501.
2. Whether the deductions claimed by Sanzogno on Form 1040C can be denied under section 874.

Holding

1. Yes, because the IRS terminated Sanzogno's taxable year and did not reopen it,

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the Form 1040C constitutes a valid return, thus the period of limitations expired before the deficiency notice was mailed.
2. No, because the Form 1040C is a valid return for the terminated taxable year, the deductions claimed on it cannot be denied under section 874.

Court's Reasoning

The court reasoned that when the IRS terminates a departing alien's taxable year under section 6851, the Form 1040C filed for that period constitutes a valid return under section 6012, triggering the statute of limitations under section 6501. The court rejected the IRS's argument that only Form 1040B could be considered a return, emphasizing that nothing in the Internal Revenue Code or regulations indicated that Form 1040C was not a return. The court also noted that the legislative history of section 6851(b) supported the idea that the taxable year could be reopened if additional income was earned, but in this case, neither Sanzogno nor the IRS reopened the year. The court further held that since the Form 1040C was a valid return, the deductions claimed on it could not be denied under section 874. The court criticized the complexity of the regulations and the lack of clear guidance for non-English-speaking aliens.

Practical Implications

This decision impacts how departing aliens' tax returns are treated by the IRS. It clarifies that when the IRS terminates a taxable year, Form 1040C can serve as a valid return, starting the statute of limitations and allowing deductions. This ruling may encourage the IRS to be more cautious in terminating taxable years for departing aliens, as it limits the time for assessing deficiencies. It also highlights the need for clearer guidance for nonresident aliens on their filing obligations. Subsequent cases have cited Sanzogno in addressing similar issues, reinforcing its precedent in the area of departing alien taxation.

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