Dowell v. Commissioner, 68 T. C. 646 (1977); 1977 U. S. Tax Ct. LEXIS 72

The statute of limitations for assessing tax deficiencies begins with the filing of the original return, not an amended return, even if the original return was fraudulent.

Summary

In Dowell v. Commissioner, the taxpayers filed fraudulent original income tax returns for the years 1963-1966 and later submitted amended returns. The IRS sent a notice of deficiency more than three years after the amended returns were filed. The Tax Court ruled that the statute of limitations for assessing deficiencies began with the original fraudulent returns, not the amended returns, thus allowing the IRS to assess deficiencies at any time due to the fraud. This case clarifies that amended returns do not affect the statute of limitations established by fraudulent original returns.

Facts

Alfonzo L. and Vivian T. Dowell filed joint income tax returns for 1963-1966 that were later found to be false and fraudulent. They subsequently filed amended returns for these years. The amended returns for 1963 and 1964 were unsigned and unverified, while those for 1965 and 1966 were signed and reported additional income. The Dowells were convicted of tax evasion for these years, and the IRS issued a notice of deficiency on December 11, 1974, over three years after the amended returns were filed.

Procedural History

The Dowells filed a petition in the United States Tax Court contesting the IRS's notice of deficiency. The Tax Court considered whether the statute of limitations barred the assessment of tax deficiencies and additions to tax for the years in question. The court's decision was based on the nature of the original returns and the applicable statute of limitations.

Issue(s)

1. Whether the statute of limitations for assessing tax deficiencies and additions to tax begins to run from the date of filing the amended returns when the original returns were fraudulent.

Holding

1. No, because the statute of limitations for assessing tax deficiencies begins with the filing of the original return, not the amended return, even if the original return was fraudulent.

Court's Reasoning

The Tax Court reasoned that the statute of limitations for assessing tax deficiencies is determined by the filing of the original return, not any subsequent amended return. The court cited Section 6501(c)(1) of the Internal Revenue Code, which allows the IRS to assess tax at any time if the original return was false or fraudulent with intent to evade tax. The court referenced prior cases like Kaltreider Construction, Inc. v. United States and Goldring v. Commissioner, which established that amended returns do not affect the statute of limitations established by the original return. The court also noted that the fraud penalty under Section 6653(b) is computed based on the original return, further supporting the irrelevance of amended returns for statute of limitations purposes. The Dowells' reliance on Bennett v. Commissioner was distinguished because that case involved delinquent, not amended, returns.

Practical Implications

This decision emphasizes that taxpayers cannot reset the statute of limitations by filing amended returns after submitting fraudulent original returns. Legal practitioners should advise clients that once a fraudulent return is filed, the IRS can assess deficiencies at any time, and subsequent amended returns will not protect against such assessments. This ruling impacts how tax professionals handle cases involving potentially fraudulent returns, as it removes the strategy of using amended returns to limit IRS action. Subsequent cases have followed this precedent, reinforcing the principle that the statute of limitations for fraudulent returns remains open indefinitely from the original filing date.

