Stroman v. Commissioner, 77 T. C. 514 (1981)

A premature tax assessment can toll the statute of limitations if it is not wholly invalidated, and 'gross income stated in the return' for innocent spouse relief includes all amounts reported as gross income, regardless of their propriety.

Summary

In Stroman v. Commissioner, the U. S. Tax Court addressed whether a premature assessment of tax deficiencies tolled the statute of limitations and if Mary Frances Stroman qualified for innocent spouse relief under IRC Section 6013(e). Stroman and her husband had signed a Form 870-AD consenting to deficiencies but with a note reserving her right to contest as an innocent spouse. The IRS assessed the deficiencies before sending a notice of deficiency, which Stroman challenged. The court held that the premature assessment was not invalid and thus tolled the statute of limitations. Additionally, Stroman was not eligible for innocent spouse relief because the unreported income did not exceed 25% of the gross income stated on their return, which included erroneously reported amounts.

Facts

Mary Frances Stroman and her husband filed joint federal income tax returns for 1968, 1969, and 1970. On November 13, 1973, they executed a Form 870-AD, consenting to assessed deficiencies but with a note that Stroman reserved the right to contest collection as an innocent spouse. The IRS assessed deficiencies on December 10, 1973. Stroman sought and obtained an injunction from a U. S. District Court in 1975, which required the IRS to send her a notice of deficiency. The Tax Court later received jurisdiction over the case after the notice was sent in 1976. The key facts involved the premature assessment and the calculation of gross income for the innocent spouse relief claim, where the Stromans reported $81,176. 99 in gross income for 1969, including a $10,000 loan that should not have been included and omitting $19,500 of the husband's income.

Procedural History

The IRS assessed deficiencies in 1973, before sending a notice of deficiency. Stroman obtained an injunction from the U. S. District Court for the Northern District of Texas in 1975, which ruled that the IRS needed to send a notice of deficiency. The IRS complied in 1976, and Stroman filed a petition with the Tax Court. The Commissioner attempted to dismiss for lack of jurisdiction, but the Tax Court denied this motion in 1978, citing res judicata from the District Court's decision. The Tax Court then proceeded to address the statute of limitations and innocent spouse relief issues.

Issue(s)

1. Whether the premature assessment of deficiencies in 1973 tolled the statute of

limitations for issuing a notice of deficiency in 1976.
2. Whether Mary Frances Stroman qualifies as an innocent spouse under IRC Section 6013(e) for the year 1969.

Holding

1. Yes, because the premature assessment, though not permitted under IRC Section 6213(a), was not wholly invalidated by the District Court's injunction and thus tolled the statute of limitations.
2. No, because the omitted income of $19,500 did not exceed 25% of the gross income stated on the return, which was $81,176. 99, including the erroneously reported $10,000 loan.

Court's Reasoning

The Tax Court reasoned that the premature assessment did not wholly invalidate the assessment process and thus tolled the statute of limitations. The court cited the District Court's decision as implicitly ruling that the period of limitations had not expired. For the innocent spouse relief issue, the court followed the Fifth Circuit's decision in Allen v. Commissioner, which held that 'gross income stated in the return' includes all amounts reported as gross income, even if improperly included. The court rejected Stroman's argument that only properly includable income should be considered, noting that this interpretation would also affect the statute of limitations under IRC Section 6501(e), which uses similar language. The court concluded that the omitted income did not meet the 25% threshold because it was calculated against the total reported gross income.

Practical Implications

This decision clarifies that a premature assessment of tax deficiencies can toll the statute of limitations if not wholly invalidated, affecting how tax practitioners advise clients on assessment timing and contesting deficiencies. For innocent spouse relief, the case establishes that all reported gross income, including erroneously included amounts, must be considered when determining the 25% omission threshold. This could impact how joint filers assess their eligibility for relief and how practitioners calculate this threshold. The decision also underscores the importance of the language used in consents to assessment, such as Form 870-AD, and the potential for judicial intervention in tax assessments, which could influence IRS procedures and taxpayer strategies in contesting assessments.

