Faltesek v. Commissioner, 92 T. C. 1204 (1989)

The IRS regulations setting time limits for electing the foreign earned income exclusion under Section 911 are valid and within the authority granted by Congress.

Summary

Faltesek, a U. S. citizen working abroad, failed to file timely tax returns for 1982 and 1983, mistakenly believing he was exempt due to the Economic Recovery Tax Act of 1981. He attempted to elect the foreign earned income exclusion under Section 911 in 1987, after receiving a deficiency notice. The Tax Court upheld the validity of IRS regulations that required timely filing for making the Section 911 election, ruling that Faltesek's late election was invalid. The decision emphasized the necessity of IRS regulations to prevent retroactive tax planning and confirmed that the regulations were within the authority granted by Congress.

Facts

William J. Faltesek, an American citizen, worked as an engineer abroad and resided in Scotland and the United Arab Emirates during 1982 and 1983. He did not file tax returns for those years, believing that changes under the Economic Recovery Tax Act of 1981 exempted him from filing. After receiving a deficiency notice in 1986, he filed returns and attempted to elect the foreign earned income exclusion under Section 911 in January 1987, well after the deadlines set by IRS regulations.

Procedural History

The Commissioner determined tax deficiencies for 1982 and 1983 and sent a deficiency notice to Faltesek in July 1986. Faltesek filed a petition with the U. S. Tax Court in December 1986. After filing his late returns in January 1987, he attempted to elect the Section 911 exclusion. The Tax Court reviewed the case and upheld the validity of the IRS regulations regarding the timing of the Section 911 election, ruling against Faltesek.

Issue(s)

1. Whether the timing limitations in Treasury Regulation Section 1. 911-7(a)(2) for electing the foreign earned income exclusion under Section 911 are valid under the authority granted by Section 911(d)(8).

Holding

1. No, because the regulations are within the authority granted by Congress and are necessary to prevent retroactive tax planning. The court found the regulations reasonable and consistent with the legislative intent behind Section 911.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The court reasoned that Section 911(d)(8) authorized the Secretary of the Treasury to prescribe regulations necessary or appropriate to carry out the purpose of Section 911. The challenged regulations were deemed both necessary and appropriate to prevent retroactive tax planning and ensure the proper administration of the law. The court highlighted that the regulations were developed after public hearings and were sensitive to the needs of taxpayers working abroad. It cited case law affirming deference to Treasury regulations when they reasonably implement congressional mandates. The court also noted that Faltesek had a gross income obligation to file returns regardless of the Section 911 election, and his late filing in 1987 was unreasonable under any interpretation of the regulations.

Practical Implications

This decision reinforces the importance of timely filing for electing the foreign earned income exclusion. Taxpayers working abroad must adhere to IRS regulations concerning the timing of such elections to avoid losing the exclusion. The ruling underscores the IRS's authority to establish procedural rules that prevent retroactive tax planning, impacting how practitioners advise clients on international tax matters. It also serves as a reminder that gross income thresholds, not adjusted gross income, determine the filing requirement. Subsequent cases and IRS guidance have continued to reference this decision when addressing the validity of procedural tax regulations.

© 2025 SCOTUSreports.com. All rights reserved.