Winnett v. Commissioner, 96 T. C. 802 (1991)

A tax return is not considered filed until received by the designated IRS office, and mischaracterization of income does not qualify as a grossly erroneous item for innocent spouse relief.

Summary

In Winnett v. Commissioner, Kathryn Winnett and her ex-husband filed a joint tax return claiming a foreign earned income exclusion under Section 911, which was later disallowed by the IRS. The return was initially sent to the wrong IRS service center, raising the issue of whether the statute of limitations for assessment had expired. The court ruled that the return was not filed until it reached the designated service center, thus the assessment was timely. Additionally, Winnett sought innocent spouse relief under Section 6013(e), arguing she was unaware of the mischaracterization of her husband's income. The court denied relief, holding that the mischaracterization was not a grossly erroneous item and that Winnett had reason to know of the understatement due to her knowledge of her husband's income.

Facts

Kathryn Winnett and Jerry Wegele filed a joint tax return for 1985, claiming an exclusion for Wegele's wages earned in Dubai under Section 911. They attached Form 2555 to their return, which was supposed to be filed with the Philadelphia Service Center but was mistakenly sent to the Ogden Service Center. The Ogden Service Center discovered the error and forwarded the return to Philadelphia after a delay. Winnett received a significant tax refund upon her divorce, which was based on the claimed exclusion. The IRS later disallowed the exclusion, leading to a deficiency notice issued more than three years after the Ogden Service Center received the return.

Procedural History

The IRS issued a notice of deficiency on August 17, 1989, disallowing the foreign earned income exclusion. Winnett petitioned the U. S. Tax Court, arguing that the assessment was time-barred and seeking innocent spouse relief. The court held a trial and subsequently ruled against Winnett on both issues.

Issue(s)

1. Whether the assessment of tax for 1985 is time-barred because the return was mailed to the wrong IRS service center.
2. Whether Winnett qualifies for innocent spouse relief under Section 6013(e).

Holding

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1. No, because the return was not considered filed until it was received by the designated IRS office in Philadelphia, and the notice of deficiency was issued within the statute of limitations.
2. No, because the mischaracterization of income as foreign earned income is not a grossly erroneous item under Section 6013(e), and Winnett had reason to know of the substantial understatement.

Court's Reasoning

The court held that for statute of limitations purposes, a return is not filed until it reaches the designated IRS office, as specified in Section 6091 and the regulations. This rule is based on the principle that meticulous compliance with filing requirements is necessary to start the limitations period. The court rejected Winnett's argument that the IRS's internal policy of treating a return as filed upon receipt by any service center should control, stating that the IRS is not bound by such policies. Regarding innocent spouse relief, the court found that the mischaracterization of income was not a grossly erroneous item because it did not involve an omission of income or a false claim of a deduction or credit. Additionally, Winnett had reason to know of the understatement since she knew all relevant facts about her husband's income and her defense rested solely on her lack of knowledge of tax law.

Practical Implications

This case emphasizes the importance of filing tax returns with the correct IRS office to ensure timely filing for statute of limitations purposes. Practitioners should advise clients to carefully follow IRS filing instructions to avoid delays in processing that could affect the statute of limitations. The ruling also clarifies that mischaracterization of income does not qualify as a grossly erroneous item for innocent spouse relief, limiting the scope of such relief. Taxpayers seeking innocent spouse relief should be aware that knowledge of the underlying transaction can preclude relief, even if they are unaware of the specific tax consequences. This case has been cited in subsequent decisions to support these principles and continues to guide the interpretation of filing requirements and innocent spouse relief.

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