Hofstetter v. Commissioner, 98 T. C. 695 (1992)

The IRS's issuance of a certificate of compliance to a departing nonresident alien does not preclude later determination of a tax deficiency.

Summary

Karl Hofstetter, a Swiss nonresident alien working in the U. S. , received a certificate of compliance from the IRS before departing in 1989. Despite this, the IRS later determined a 1988 tax deficiency due to uncomputed alternative minimum tax (AMT). The Tax Court held that the certificate does not bar deficiency determinations and that the AMT provisions do not unconstitutionally discriminate against married nonresident aliens or violate U. S. -Switzerland tax treaty rights. Hofstetter was not liable for negligence penalties due to good faith efforts in filing his return.

Facts

Karl Hofstetter, a Swiss citizen, worked in the U. S. as a researcher from 1987 to 1989 under a teacher's visa. In 1988, he earned $43,333 from a law firm and reported this income on a timely filed Form 1040-NR. Hofstetter claimed deductions for travel, meals, and entertainment expenses, resulting in zero taxable income. Before leaving the U. S. in June 1989, he received an IRS certificate of compliance for 1988. Subsequently, the IRS determined a deficiency for 1988 due to uncomputed AMT, which Hofstetter challenged.

Procedural History

The IRS issued a notice of deficiency on November 27, 1989, for the 1988 tax year, asserting a $4,900 deficiency due to AMT and a negligence penalty. Hofstetter petitioned the U. S. Tax Court, arguing that the certificate of compliance should bar the deficiency and that the AMT discriminated against him. The case was assigned to a Special Trial Judge, whose opinion the Tax Court adopted, deciding for the IRS on the deficiency but against on the negligence penalty.

Issue(s)

1. Whether the IRS is precluded from determining a tax deficiency for 1988 after issuing a certificate of compliance to Hofstetter in 1989.
2. Whether the AMT provisions unconstitutionally discriminate against married nonresident aliens.
3. Whether the AMT provisions violate the U. S. -Switzerland tax treaty.
4. Whether Hofstetter is liable for the negligence penalty.

Holding

1. No, because the certificate of compliance does not represent an acceptance of the

© 2025 SCOTUSreports.com. All rights reserved.

return as filed but rather a determination that the taxpayer's departure does not jeopardize tax collection.
2. No, because the AMT provisions apply equally to all taxpayers and do not discriminate based on national origin or marital status.
3. No, because the AMT provisions do not treat Hofstetter differently from U. S. citizens under similar circumstances.
4. No, because Hofstetter made a good faith effort to accurately complete his tax return.

Court's Reasoning

The court clarified that the certificate of compliance issued under IRC section 6851(d) is not a final determination of tax liability but a finding that departure does not jeopardize collection. The court rejected Hofstetter's estoppel and due process arguments, noting that the certificate does not preclude subsequent deficiency determinations. On the AMT issue, the court found no unconstitutional discrimination, as the law applies equally to all taxpayers in similar situations, regardless of nationality or marital status. The court also determined that the AMT provisions do not violate the U. S. -Switzerland tax treaty, as they do not discriminate based on nationality. Finally, the court ruled that Hofstetter was not negligent, as he attempted to complete his return in good faith.

Practical Implications

This decision clarifies that a certificate of compliance does not protect taxpayers from subsequent IRS audits or deficiency determinations, emphasizing the need for careful tax planning and compliance even after receiving such certificates. It also reaffirms that AMT provisions apply uniformly to nonresident aliens, affecting how tax professionals advise clients on AMT calculations. The ruling may influence nonresident aliens' decisions to seek U. S. tax residency status, particularly if married to nonresident aliens, due to the impact on filing status and exemptions. Future cases involving tax treaties should consider this precedent when assessing potential discrimination claims. Tax practitioners should note that good faith efforts in tax return preparation can mitigate negligence penalties.

© 2025 SCOTUSreports.com. All rights reserved.