

ICI Pension Fund v. Commissioner, 112 T. C. 83 (1999)

A nonresident alien's claim for a refund of withheld taxes triggers the obligation to file a tax return, extending the statute of limitations on assessment indefinitely if no return is filed.

Summary

ICI Pension Fund, a non-U. S. pension fund, received dividends from U. S. corporations in 1991 and 1992, with taxes withheld. After claiming and receiving refunds, asserting tax-exempt status, the IRS issued deficiency notices in 1996. The Tax Court held that by claiming refunds, ICI triggered a requirement to file returns under section 1. 6012-1(b)(2)(i), Income Tax Regs. , and thus, the IRS's deficiency notices were timely under section 6501(c)(3), as no returns were filed. This ruling emphasizes that claiming a refund negates the exception from filing a return for nonresident aliens.

Facts

ICI Pension Fund, located in London, received dividends from U. S. corporations in 1991 and 1992, subject to U. S. income tax withholding. Banker's Trust, the withholding agent, withheld and remitted the taxes to the IRS. ICI claimed it was tax-exempt and filed refund claims for 1991 and 1992, which the IRS refunded. ICI did not file tax returns for these years, relying on the exception in section 1. 6012-1(b)(2)(i), Income Tax Regs. , which states nonresident aliens are not required to file if their tax liability is fully satisfied by withholding.

Procedural History

ICI moved for summary judgment arguing the IRS's deficiency notices were untimely under section 6501(a). The IRS countered with a motion for partial summary judgment, asserting the notices were timely under section 6501(c)(3). The Tax Court granted the IRS's motion, ruling the notices were timely because ICI failed to file returns for the years in question.

Issue(s)

1. Whether ICI Pension Fund was required to file income tax returns for 1991 and 1992 after claiming refunds of withheld taxes.
2. Whether the IRS's deficiency notices for 1991 and 1992 were timely under section 6501(c)(3).

Holding

1. Yes, because ICI's claim for refunds of the withheld taxes negated the regulatory exception under section 1. 6012-1(b)(2)(i), thus requiring ICI to file returns.
2. Yes, because ICI failed to file returns for 1991 and 1992, the IRS's deficiency

notices were timely under section 6501(c)(3), which allows for assessment at any time when no return is filed.

Court's Reasoning

The Tax Court reasoned that the regulatory exception under section 1.6012-1(b)(2)(i) did not apply to ICI because its tax liability was not fully satisfied by withholding after it claimed and received refunds. The court interpreted the regulation's language to mean that a claim for a refund removes a nonresident alien from the exception, thus requiring the filing of a return. The court also clarified that the statute of limitations under section 6501(c)(3) applies indefinitely when a taxpayer fails to file a required return. The court rejected ICI's argument that the withholding agent's Form 1042 could serve as ICI's return for statute of limitations purposes, as it did not meet the criteria of a valid return under *Beard v. Commissioner*.

Practical Implications

This decision has significant implications for nonresident aliens and foreign entities receiving U. S. -source income. It clarifies that claiming a refund of withheld taxes triggers a return filing obligation, even if the tax liability was initially satisfied by withholding. Practitioners must advise clients to file returns if they claim refunds, as failure to do so leaves them open to indefinite assessment periods. This ruling also impacts IRS practice, reinforcing the agency's position on the necessity of filing returns in such situations. Subsequent cases like *MNOPF Trustees Ltd. v. United States* have cited this ruling, solidifying its impact on international tax law and compliance.