Healer v. Commissioner of Internal Revenue, 115 T.C. 316 (2000)

A substitute for return (SFR) prepared by the IRS under 26 U.S.C. § 6020(b) does not constitute a return filed by the taxpayer for purposes of the refund limitations period under 26 U.S.C. § 6511.

Summary

Helen Healer failed to file her 1996 tax return. The IRS issued a notice of deficiency based on a substitute for return (SFR) it prepared. Healer then filed a return and an amended return, claiming an overpayment and seeking a refund. The Tax Court addressed whether the 3-year or 2-year look-back period for refunds applied under 26 U.S.C. § 6512(b)(3)(B). The court held that because Healer had not filed a return before the notice of deficiency, and the SFR is not considered a taxpayer-filed return, the 2-year look-back period applied, barring her refund claim as the overpayment was not made within that period.

Facts

Petitioner Helen Healer received extensions to file her 1996 tax return, but failed to file by the extended deadline of October 15, 1997.

On April 28, 1999, the IRS issued a notice of deficiency to Healer for the 1996 tax year. This notice included a substitute for return (SFR) prepared by the IRS under 26 U.S.C. § 6020(b)(1).

As of the date the notice of deficiency was mailed, Healer had not filed a 1996 tax return.

On July 16, 1999, Healer signed and subsequently filed her 1996 tax return, which the IRS received on July 19, 1999.

On August 4, 1999, after petitioning the Tax Court, Healer signed and submitted an amended 1996 tax return.

Both Healer's original and amended returns disputed the IRS's determinations in the SFR, except for the amount of prepayment credits.

The parties agreed that Healer had made prepayment credits of $30,480 and that after considering these credits, she had overpaid her 1996 taxes by $8,973.

Procedural History

The IRS issued a notice of deficiency to Healer.

Healer petitioned the Tax Court contesting the deficiency and seeking a refund of her overpayment.

© 2025 SCOTUSreports.com. All rights reserved.

The case was submitted to the Tax Court fully stipulated.

Issue(s)

1. Whether the amended 26 U.S.C. § 6512(b)(3) or its legislative history requires deviation from the Supreme Court's holding in *Commissioner v. Lundy*, 516 U.S. 235 (1996), regarding the applicable look-back period for refunds when a taxpayer files a late return after the IRS issues a notice of deficiency based on an SFR.

2. Whether a substitute for return prepared by the IRS under 26 U.S.C. § 6020(b)(1) constitutes a return filed by the taxpayer for purposes of the refund limitations under 26 U.S.C. § 6511.

Holding

1. No. Neither the amendment to 26 U.S.C. § 6512(b)(3) nor its legislative history permits the Tax Court to deviate from the holding in *Commissioner v. Lundy* in this case because the amendment is not applicable to the tax year in question and the legislative history does not alter the interpretation of the pre-amendment statute as established in *Lundy*.

2. No. A substitute for return prepared by the IRS pursuant to 26 U.S.C. § 6020(b)(1) does not constitute a return filed by the taxpayer for purposes of 26 U.S.C. § 6511 because the statute and precedent indicate that an SFR is merely an IRS assessment tool and not a taxpayer's return.

Court's Reasoning

The court relied on *Commissioner v. Lundy*, which held that in cases where a taxpayer files a late return after the IRS issues a notice of deficiency, the 2-year look-back period of 26 U.S.C. § 6511(b)(2)(B) applies, not the 3-year period of § 6511(b)(2)(A).

The court rejected Healer's argument that the 1997 amendment to § 6512(b)(3) and its legislative history indicated Congressional intent to allow the 3-year look-back period in situations like hers. The court stated that the amendment was not applicable to the 1996 tax year and did not change the interpretation of the statute for prior years as established by *Lundy*.

Addressing whether an SFR constitutes a taxpayer return, the court cited 26 U.S.C. § 6020(b)(2), which states an SFR is "prima facie good and sufficient for all legal purposes," but distinguished this from it being a return filed *by the taxpayer* for refund purposes. The court referenced 26 U.S.C. § 6501(b)(3), which explicitly states that an SFR does not start the statute of limitations for assessment, implying it is not a return in the typical sense.

The court cited *Flagg v. Commissioner*, T.C. Memo. 1997-297, and *Millsap v.*

© 2025 SCOTUSreports.com. All rights reserved.

Commissioner, 91 T.C. 926 (1988), which held that SFRs are not considered returns filed by the taxpayer for purposes of various tax code sections, including refund limitations and filing status elections. The court emphasized that under 26 U.S.C. § 6020(a), a return prepared by the Secretary only becomes the taxpayer's return if signed by the taxpayer, which was not the case here.

The court concluded that because the SFR is not a taxpayer return and Healer filed her return after the notice of deficiency, the 2-year look-back period applied. As Healer's overpayment was not made within two years of the notice of deficiency, she was not entitled to a refund.

Practical Implications

Healer v. Commissioner reinforces that taxpayers must file their own returns to benefit from the 3-year refund look-back period. An IRS-prepared substitute for return, while valid for assessment purposes, does not grant taxpayers the same refund rights as a self-filed return.

This case clarifies that even if the IRS prepares an SFR, taxpayers who file late and seek a refund in Tax Court are subject to the stricter 2-year look-back rule if they have not filed a return before the notice of deficiency. Tax practitioners must advise clients to file returns promptly, even if late, to maximize their refund opportunities and avoid reliance on the more limited refund window triggered by an SFR.

The decision highlights the importance of understanding the distinction between an SFR and a taxpayer-filed return, particularly in the context of refund claims and statute of limitations issues. It also demonstrates the Tax Court's adherence to Supreme Court precedent in *Lundy* and its consistent interpretation of SFRs across different sections of the Internal Revenue Code.

© 2025 SCOTUSreports.com. All rights reserved.