***Appleton v. Commissioner, 140 T. C. 273 (U. S. Tax Ct. 2013)***

In Appleton v. Commissioner, the U. S. Tax Court ruled that a U. S. citizen, a bona fide resident of the Virgin Islands, who filed tax returns with the Virgin Islands Bureau of Internal Revenue (VIBIR) as directed by IRS instructions, commenced the statute of limitations for federal tax purposes under Section 6501. The decision clarified that for the tax years in question, no additional filing with the IRS was required to start the limitations period, impacting how Virgin Islands residents and the IRS handle tax filings and assessments.

**Parties**

Plaintiff/Petitioner: Appleton, a U. S. citizen and bona fide resident of the Virgin Islands.
Defendant/Respondent: Commissioner of Internal Revenue.

**Facts**

Appleton, a U. S. citizen and permanent resident of the Virgin Islands, filed territorial income tax returns with the VIBIR for the tax years 2002, 2003, and 2004, claiming benefits under the Virgin Islands Industrial Development Program. He did not file federal income tax returns with the IRS, asserting that his VIBIR filings satisfied federal filing requirements under Section 932(c)(4). The IRS, upon receiving copies of Appleton's returns from the VIBIR, determined that Appleton did not qualify for the gross income exclusion and issued a notice of deficiency in 2009. Appleton challenged the notice, arguing that the statute of limitations under Section 6501 had expired.

**Procedural History**

Appleton filed a timely petition with the U. S. Tax Court contesting the notice of deficiency. He moved for summary judgment, asserting that the notice was time-barred under Section 6501(a) because more than three years had passed since he filed his returns with the VIBIR. The Commissioner opposed the motion, arguing that Appleton's returns filed with the VIBIR were not federal returns and thus did not trigger the statute of limitations. The Tax Court reviewed the motion under Rule 121 of the Tax Court Rules of Practice and Procedure, applying the standard of no genuine issue as to any material fact.

**Issue(s)**

Whether the tax returns filed by Appleton with the Virgin Islands Bureau of Internal Revenue (VIBIR) constitute the returns required to be filed by the taxpayer under Section 6501(a), thus commencing the statute of limitations for federal tax purposes?

**Rule(s) of Law**

© 2025 SCOTUSreports.com. All rights reserved. 

Section 6501(a) of the Internal Revenue Code provides that the amount of any tax imposed shall be assessed within three years after the return was filed. For the statute of limitations to commence, the return must be the one required to be filed by the taxpayer. Section 932(c) governs the tax filing requirements for bona fide residents of the Virgin Islands. The regulations and instructions to Form 1040 directed such residents to file their returns with the VIBIR. The Beard test, derived from Beard v. Commissioner, 82 T. C. 766 (1984), is used to determine whether a document qualifies as a valid return for purposes of Section 6501(a).

**Holding**

The Tax Court held that the tax returns filed by Appleton with the VIBIR were the returns required to be filed by the taxpayer under Section 6501(a), and thus the statute of limitations commenced upon their filing. The Court granted Appleton's motion for summary judgment, concluding that the notice of deficiency was time-barred.

**Reasoning**

The Court's reasoning focused on the interpretation of Section 932(c) and the filing instructions provided by the IRS. It applied the Beard test to determine that Appleton's returns met the criteria for a valid return, despite their inaccuracies, as they contained sufficient data to calculate tax liability, purported to be returns, represented an honest and reasonable attempt to comply with tax law, and were executed under penalties of perjury. The Court emphasized that the IRS's instructions to Form 1040 directed Virgin Islands residents to file with the VIBIR, and no other filing requirement was communicated for the years in question. The Court rejected the Commissioner's argument that Appleton should have filed a protective return with the IRS, finding it unreasonable to expect taxpayers to file such returns without explicit instructions. The Court also noted that subsequent IRS notices and regulations did not apply retroactively to the years at issue. The decision highlighted the importance of clear IRS guidance and the implications of such guidance on taxpayer compliance and the statute of limitations.

**Disposition**

The Tax Court granted Appleton's motion for summary judgment, holding that the statute of limitations under Section 6501(a) had expired before the Commissioner mailed the notice of deficiency. The Court denied the intervenor's motion for summary judgment as moot.

**Significance/Impact**

The Appleton decision is significant for clarifying the filing requirements for U. S. citizens residing in the Virgin Islands and the commencement of the statute of limitations under Section 6501. It underscores the necessity for the IRS to provide

© 2025 SCOTUSreports.com. All rights reserved. 

clear and consistent guidance regarding filing obligations, particularly in jurisdictions with special tax arrangements like the Virgin Islands. The ruling has practical implications for how the IRS and taxpayers handle tax filings and assessments in such jurisdictions, potentially affecting future cases and administrative practices. It also highlights the potential consequences of retroactive changes in IRS policy on taxpayers' rights and obligations.

© 2025 SCOTUSreports.com. All rights reserved. 