140 T.C. 273 (2013)

A U.S. citizen who is a bona fide resident of the U.S. Virgin Islands satisfies their U.S. federal income tax filing obligation by filing a return with the Virgin Islands Bureau of Internal Revenue (VIBIR), commencing the statute of limitations for assessment of tax.

Summary

Arthur Appleton, a U.S. citizen and permanent resident of the U.S. Virgin Islands, filed territorial tax returns with the VIBIR for 2002-2004, claiming a gross income exclusion. He didn't file separate federal returns. The IRS issued a notice of deficiency more than three years after these filings, arguing that the VIBIR filings didn't count as federal returns, thus the statute of limitations hadn't started. The Tax Court held that filing with the VIBIR satisfied Appleton's federal filing obligation, triggering the statute of limitations, which had expired before the deficiency notice was issued. The court granted Appleton's motion for summary judgment.

Facts

Petitioner Arthur Appleton was a U.S. citizen and a permanent resident of the U.S. Virgin Islands during 2002, 2003, and 2004.
Appleton claimed entitlement to income tax benefits under the Virgin Islands Industrial Development Program (EDP) through a Virgin Islands partnership.
For each year, Appleton filed a territorial income tax return with the VIBIR pursuant to I.R.C. § 932(c)(2).
Appleton did not file separate federal income tax returns with the IRS, asserting that his VIBIR filing satisfied his federal obligations under I.R.C. § 932(c)(4).
The IRS received copies of Appleton's returns from the VIBIR and examined them, determining that Appleton didn't qualify for the gross income exclusion.

Procedural History

The IRS mailed Appleton a notice of deficiency on November 25, 2009, determining income tax deficiencies and penalties for 2002, 2003, and 2004.
Appleton timely petitioned the Tax Court on April 1, 2010, arguing that the notice of deficiency was time-barred.
Appleton filed a motion for summary judgment on November 8, 2011.
The Tax Court granted Appleton's motion for summary judgment, holding that the statute of limitations had expired.

Issue(s)

Whether the Forms 1040 filed by Appleton with the VIBIR constituted valid U.S. federal income tax returns for the purposes of commencing the statute of limitations under I.R.C. § 6501(a).

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Whether the notice of deficiency mailed by the IRS to Appleton was barred by the statute of limitations.

Holding

Yes, because the instructions to Form 1040 directed permanent residents of the Virgin Islands to file their returns with the VIBIR, and Appleton complied with those instructions.
Yes, because the statute of limitations commenced when Appleton filed his returns with the VIBIR, and the three-year period expired before the IRS mailed the notice of deficiency.

Court’s Reasoning

The court applied I.R.C. § 6501(a), which requires assessment of tax within three years after a return is filed. The court determined whether the Forms 1040 filed with the VIBIR were the returns

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