Estate of Travis L. Sanders v. Commissioner of Internal Revenue, 144 T. C. 63, 2015 U. S. Tax Ct. LEXIS 5 (T. C. 2015)

In Estate of Travis L. Sanders v. Comm'r, the U. S. Tax Court ruled that Travis L. Sanders was a bona fide resident of the U. S. Virgin Islands (USVI) for tax years 2002-2004, thus his tax returns filed with the USVI met his federal filing obligations. The court applied a facts-and-circumstances test to determine residency and found that the statute of limitations had expired before the IRS issued a notice of deficiency, preventing further assessment of taxes. This decision clarifies the application of I. R. C. § 932 and underscores the importance of clear IRS guidance for residents of U. S. territories.

Parties

The petitioner was the Estate of Travis L. Sanders, represented by Thomas S. Hogan, Jr. , as Personal Representative. The Government of the United States Virgin Islands intervened as a party. The respondent was the Commissioner of Internal Revenue.

Facts

Travis L. Sanders, a U. S. citizen, founded and owned Surge Suppression, Inc. , and Surge Technology, Inc. , both based in Florida. In 2002, he signed an employment agreement with Madison Associates, L. P. (Madison), a USVI limited partnership, and became a limited partner. The agreement required Sanders to become a resident of the USVI. He filed Forms 1040 with the Virgin Islands Bureau of Internal Revenue (VIBIR) for tax years 2002, 2003, and 2004, claiming residency in the USVI and the EDC Credit. Sanders maintained a physical presence in the USVI, including owning a vessel moored there and conducting banking with USVI addresses. He married in the USVI in 2003, listing a USVI address on his marriage license.

Procedural History

More than three years after Sanders filed his tax returns with the VIBIR, the IRS mailed him a notice of deficiency on November 30, 2010, asserting that he was not a bona fide resident of the USVI and had not filed U. S. tax returns for the years in question. The notice determined deficiencies and additions to tax for 2002-2004. Sanders filed a timely petition with the U. S. Tax Court. The Government of the USVI was granted intervenor status on February 25, 2014.

Issue(s)

Whether Travis L. Sanders was a bona fide resident of the USVI for tax years 2002-2004 under I. R. C. § 932(c)(1)(A)?

Whether the Forms 1040 filed by Sanders with the VIBIR met his federal tax filing obligations?

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Whether the period of limitations under I. R. C. § 6501(a) had expired before the IRS issued the notice of deficiency?

Rule(s) of Law

I. R. C. § 932(c)(2) requires bona fide residents of the USVI to file their income tax returns with the VIBIR. I. R. C. § 932(c)(4) provides that if a bona fide resident of the USVI files a return with the VIBIR, reports income from all sources, and fully pays his tax liability to the USVI, his income is excluded from U. S. gross income. The determination of bona fide residency is based on a facts-and-circumstances test as articulated in Vento v. Dir. of V. I. Bureau of Internal Revenue, 715 F. 3d 455 (3d Cir. 2013). I. R. C. § 6501(a) provides that the period of limitations on assessment expires three years after a return is filed.

Holding

The court held that Travis L. Sanders was a bona fide resident of the USVI for tax years 2002-2004 under the facts-and-circumstances test. The Forms 1040 filed by Sanders with the VIBIR satisfied his federal tax filing obligations. The period of limitations under I. R. C. § 6501(a) commenced upon the filing of these returns with the VIBIR and had expired before the IRS issued the notice of deficiency.

Reasoning

The court applied the facts-and-circumstances test from Vento to determine Sanders' residency status. It considered his intent to remain in the USVI indefinitely, his physical presence, social and professional ties, and his representations as a USVI resident. Sanders' intent was demonstrated by his employment agreement with Madison, requiring USVI residency, and his actions such as marrying in the USVI and maintaining a USVI address for banking and legal documents. His physical presence was established through his residence on a vessel in the USVI and his use of USVI addresses. The court rejected the IRS's argument that Sanders was required to file with the IRS because he was a non-permanent resident of the USVI, as the instructions for Form 1040 clearly directed bona fide residents to file with the VIBIR. The court also noted the lack of clear IRS guidance on determining bona fide residency during the years in question. The period of limitations under § 6501(a) was found to have commenced when Sanders filed his returns with the VIBIR, which were valid under the Beard test, and had expired before the IRS issued the notice of deficiency.

Disposition

The court ruled in favor of the petitioner, holding that the period of limitations had expired before the IRS issued the notice of deficiency. An appropriate decision was entered.

Significance/Impact

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This case is significant for clarifying the application of I. R. C. § 932 to bona fide residents of U. S. territories, particularly the USVI. It highlights the importance of clear IRS guidance and instructions for taxpayers residing in territories. The decision reaffirms the use of the facts-and-circumstances test for determining residency status under § 932 and emphasizes that the filing of a tax return with the appropriate territorial authority can satisfy federal tax obligations if the taxpayer is a bona fide resident. The ruling also impacts the IRS's ability to assess taxes after the expiration of the statute of limitations, emphasizing the importance of timely action by the IRS in cases involving territorial residents.

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