Santa Eulalia Mining Co. v. Commissioner, 2 T.C. 241 (1943)

A tax levied by a foreign government, which is repeatedly referred to as an income tax in the levying statute and computed on the basis of gross revenue, qualifies as an income tax for the purposes of the foreign tax credit under U.S. tax law, even if the method of determination does not strictly conform to U.S. income tax computation methods.

Summary

Santa Eulalia Mining Co. sought a foreign tax credit under Section 131 of the Revenue Acts of 1936 and 1938 for taxes paid to the Mexican government under the statute "Ley del Impuesto sobre la Renta." The IRS Commissioner argued the taxes were excise taxes, not income taxes, and therefore only deductible. The Tax Court held that because the Mexican statute explicitly referred to the tax as an income tax and computed it based on the company's gross revenue, it qualified as an income tax for the purposes of the foreign tax credit, despite differences in computation methods compared to U.S. tax law.

Facts

- Santa Eulalia Mining Co., a U.S. corporation, paid taxes to the Mexican government under the "Ley del Impuesto sobre la Renta" (Income Tax Law) on revenue from its mining operations in Mexico.
- The company signified its desire to claim a foreign tax credit for these payments on its U.S. tax return.
- The Mexican tax was calculated based on the company's gross revenue under its contract with El Potosi, although some production expenses were deducted by El Potosi before payment.
- The Mexican statute referred to the tax as an "income tax" and applied it to both domestic and foreign entities deriving income from sources within Mexico.

Procedural History

- Santa Eulalia Mining Co. claimed a foreign tax credit on its U.S. tax return.
- The Commissioner of Internal Revenue disallowed the credit, arguing the tax was an excise tax deductible under Section 23(c), not creditable under Section 131.
- The case was brought before the Tax Court of the United States.

Issue(s)

1. Whether the taxes paid by Santa Eulalia Mining Co. to the Mexican government under the "Ley del Impuesto sobre la Renta" constitute income taxes for the purpose of the foreign tax credit under Section 131 of the Revenue Acts of 1936 and 1938.

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Holding

1. Yes, because the Mexican statute explicitly refers to the tax as an income tax, computes it based on the company's gross revenue from mining properties, and intends it as an income tax, even if the computation method differs from U.S. standards.

Court's Reasoning

The Court reasoned that the key factor was the nature of the tax as defined by the levying statute. While acknowledging that the Mexican tax computation did not perfectly align with U.S. income tax principles, the Court emphasized that the Mexican law itself consistently referred to the tax as an "income tax." The Court cited specific articles within the Mexican law that imposed the tax on income derived from sources within Mexico and computed it on the basis of gross revenue. The Court distinguished Keasbey & Mattison Co. v. Rothensies, noting that the Quebec Mining Act was determined to be an excise tax based on the

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