***Lynch v. Commissioner*, 19 T.C. 495 (1952)**

The Tax Court held that the Commissioner could not assess a deficiency outside the statute of limitations because the exception for mitigation of tax effects did not apply, specifically rejecting the argument that a disallowed deduction could be considered an exclusion from gross income under the relevant statute.

Summary

The case concerns the applicability of the statute of limitations in a tax dispute. The taxpayer, Lynch, had taken a deduction for amortizable bond premium in 1944, which was later disallowed by the Commissioner. After the Supreme Court's ruling in *Commissioner v. Korell*, the Commissioner allowed Lynch's claim for a refund for 1944. Subsequently, the Commissioner assessed a deficiency for 1945, based on the adjusted basis of the bonds that reflected the disallowed 1944 deduction. The Tax Court addressed whether the mitigation provisions of the Internal Revenue Code allowed the assessment of a deficiency for 1945 despite the statute of limitations having expired. The court held the statute of limitations barred the deficiency because the conditions for mitigation were not met.

Facts

In 1944, Lynch purchased bonds and claimed a $10,000 deduction for amortizable bond premium. In 1945, he sold the bonds and adjusted their basis based on the 1944 deduction. The Commissioner initially disallowed the 1944 deduction, resulting in a deficiency for 1944 and an overassessment for 1945. The overassessment was credited against the 1944 deficiency. Following the *Korell* decision, the Commissioner allowed Lynch's 1944 refund claim. Later, on April 12, 1952, the Commissioner assessed a deficiency for 1945. The Commissioner based the 1945 deficiency on the adjusted basis of the bonds as originally calculated by Lynch in his 1945 tax return.

Procedural History

The Commissioner determined deficiencies and overassessments for 1944 and 1945. The Tax Court was presented with the question of whether the Commissioner was time-barred from assessing a deficiency for the year 1945.

Issue(s)

1. Whether the statute of limitations barred the Commissioner from assessing a deficiency for 1945.

2. Whether the mitigation provisions of section 3801(b)(3) of the Internal Revenue Code applied to allow the Commissioner to assess a deficiency for 1945 despite the statute of limitations.

Holding

1. Yes, because the statute of limitations generally barred the assessment of a deficiency for 1945.

2. No, because the mitigation provisions of section 3801(b)(3) did not apply, as a disallowed deduction is not equivalent to an exclusion from gross income for the purposes of section 3801(b)(3).

Court's Reasoning

The Tax Court addressed the issue of whether the Commissioner could assess a deficiency for 1945, even though the statute of limitations had expired, by applying section 3801 of the Internal Revenue Code, the mitigation provisions. The court found that the Commissioner's action to assess a deficiency for 1945 was time-barred. The Commissioner argued that section 3801(b)(3) applied because the prior disallowance of the bond premium deduction in 1944, and the resulting adjustment to the bond's basis, essentially required