Gleason Works v. Commissioner, 58 T. C. 464 (1972)

A foreign tax credit is allowable for U. S. taxpayers when income taxes are withheld by a foreign entity on their behalf, even if not directly assessed.

Summary

Gleason Works, a U. S. corporation, sought a foreign tax credit for British income tax withheld by its British subsidiary on interest payments. The U. S. Tax Court ruled in favor of Gleason, allowing the credit. The court found that the British tax was imposed on Gleason, despite being withheld by its subsidiary, thus meeting the criteria for a foreign tax credit under U. S. law. This case clarifies the application of foreign tax credits when income taxes are withheld by foreign entities on behalf of U. S. taxpayers.

Facts

Gleason Works, a New York corporation, had loaned money to its wholly-owned British subsidiary, Gleason Works, Ltd. As of December 31, 1964, the subsidiary owed Gleason $221,839. 43 in interest. In 1965, the subsidiary paid $135,876. 73 to Gleason and withheld $85,962. 70 as British income tax under section 169 of the British Income Tax Act of 1952. Gleason reported the received amount as income, grossed up the withheld amount, and claimed a foreign tax credit for it on its 1965 U. S. tax return.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Gleason’s 1965 income tax, denying the foreign tax credit. Gleason petitioned the U. S. Tax Court, which heard the case and issued a decision in favor of Gleason, allowing the foreign tax credit.

Issue(s)

1. Whether Gleason Works is entitled to a foreign tax credit under section 901 of the Internal Revenue Code for the British income tax withheld by its subsidiary on interest payments?

Holding

1. Yes, because the British standard tax on interest was imposed on Gleason and paid by it within the meaning of section 901(b)(1) of the Internal Revenue Code and section 1. 901-2(a) of the Income Tax Regulations.

Court’s Reasoning

The court analyzed the British tax law and U. S. tax credit provisions, concluding

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that the British tax was legally imposed on Gleason, despite being withheld by its subsidiary. The court distinguished this case from Biddle v. Commissioner, noting that interest, unlike dividends, is directly charged under British law. The court emphasized that the withholding mechanism under section 169 of the British Income Tax Act was merely a collection method for a tax already imposed on Gleason. The court also considered the historical context and subsequent amendments to the U. S. -U. K. tax treaty, which further supported the allowance of the credit. The decision was influenced by the principle that the tax was paid on behalf of Gleason, as per the Income Tax Regulations.

Practical Implications

This decision impacts how U. S. taxpayers analyze similar cases involving foreign tax credits when taxes are withheld by foreign entities. It clarifies that such credits can be claimed when the tax is imposed on the U. S. taxpayer, even if not directly assessed. Legal practice in this area may see increased claims for foreign tax credits in similar situations. Businesses with international operations should consider the implications for their tax planning, particularly when dealing with interest income from foreign subsidiaries. Later cases have followed this ruling, reinforcing its application in U. S. tax law.

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