Goldstone v. Commissioner, 65 T. C. 113 (1975)

An amended return cannot be used to delete a properly claimed investment credit to avoid recapture when the property is disposed of.

Summary

The Goldstones claimed an investment credit on their 1967 tax return for property later transferred to a corporation and disposed of in 1970. They filed amended returns in 1971 and 1972 attempting to delete the credit to avoid recapture. The Tax Court held that the amended returns could not alter the credit's treatment, requiring recapture in 1970 per IRC § 47. This decision emphasizes the finality of initial tax return filings and the mandatory application of recapture rules.

Facts

The Goldstones claimed a $1,400 investment credit on their 1967 tax return for property purchased that year. In 1967, they transferred this property to Golden Gate Fashions, Inc. in a tax-free exchange under IRC § 351. The corporation disposed of the property in 1970. In 1971 and 1972, the Goldstones filed amended 1967 returns attempting to delete the credit, stating it should be recaptured through the amended return.

Procedural History

The Goldstones filed their original 1967 return claiming the investment credit. In 1971 and 1972, they filed amended returns to delete the credit. The IRS denied their refund claims in 1973 and issued a deficiency notice for 1970, requiring recapture of the credit. The Tax Court upheld the IRS's position.

Issue(s)

1. Whether petitioners may delete an investment credit properly claimed on their original 1967 return via an amended return to avoid recapture in 1970.

Holding

1. No, because the amended returns filed after the statutory filing period cannot alter the treatment of the credit claimed on the original return, and recapture is required under IRC § 47 in the year of disposition.

Court's Reasoning

The court relied on *Pacific National Co. v. Welch*, which held that a taxpayer cannot change the method of reporting income after the statutory filing period to avoid recapture or recomputation of taxes. The court emphasized that allowing such changes would create uncertainty and administrative burdens. The Goldstones' attempt to delete the credit through an amended return was inconsistent with their original return and would contravene the clear language of IRC § 47, which mandates recapture upon disposition. The court noted that cases upholding amended returns typically involved different factual contexts, such as filing before the statutory deadline or correcting improper initial treatments. Here, the credit was properly claimed initially, and the amended returns were filed well after the deadline.

Practical Implications

This decision underscores the importance of carefully considering tax positions on original returns, as later amendments cannot be used to avoid statutory obligations like investment credit recapture. Taxpayers and practitioners must be aware that once an investment credit is properly claimed, it cannot be undone through an amended return to avoid recapture. This ruling reinforces the finality of tax return filings and the strict application of recapture provisions under IRC § 47. Subsequent cases have continued to apply this principle, emphasizing the need for accurate initial filings and compliance with statutory recapture requirements.

