Matson Navigation Co. v. Commissioner, 68 T. C. 847 (1977)

Revenue procedures, unlike revenue rulings, are not retroactively applied unless specifically indicated, ensuring fairness in tax depreciation adjustments.

Summary

Matson Navigation Co. contested the retroactive application of Revenue Procedure 68-27, which modified the criteria for adjusting depreciation deductions. The U. S. Tax Court held that Revenue Procedure 68-27 was not intended to be applied retroactively, allowing Matson to use a previously justified class life for depreciation for the years 1965-1967. For 1968-1969, a minimal 5% adjustment was permitted if a change was necessary, emphasizing the importance of procedural fairness and reliance interests in tax law.

Facts

Matson Navigation Co. justified a 13. 11-year class life for its vessel account following an audit of its 1964 tax return. From 1965 to 1969, Matson met the reserve ratio test, demonstrating consistency with this class life. However, the IRS argued that subsequent changes in Matson’s asset composition required adjustments under Revenue Procedure 68-27, issued in 1968. Matson challenged the retroactive application of this procedure, which would alter the depreciation rules it had relied upon.

Procedural History

Matson filed a motion for reconsideration after the initial U. S. Tax Court decision, which applied Revenue Procedure 68-27 retroactively. The court reconsidered its stance and issued a supplemental opinion on September 1, 1977, addressing Matson’s arguments against retroactivity and the appropriate adjustment percentage for depreciation.

Issue(s)

1. Whether Revenue Procedure 68-27, which modifies the criteria for adjusting depreciation deductions, should be applied retroactively to Matson’s tax years 1965 through 1969?
2. If an adjustment to Matson’s depreciation deductions is necessary for 1968 and 1969, whether it should be a 5% or a 10% increase in the class life?

Holding

1. No, because Revenue Procedure 68-27 was not intended to be retroactive, as it would undermine taxpayer reliance on prior procedures and IRS policy typically does not make revenue procedures retroactive without clear indication.
2. Yes, a 5% adjustment is appropriate because Matson’s reserve ratio never

exceeded the transitional upper limit, and no policy reason supports a larger adjustment.

Court's Reasoning

The court distinguished between revenue rulings, which are generally retroactive, and revenue procedures, which are not unless specified. Revenue Procedure 68-27, issued to clarify the application of Revenue Procedure 62-21, did not contain an effective date, and IRS practice and policy suggested it should not be retroactive. The court emphasized the importance of taxpayer reliance on Revenue Procedure 62-21, which encouraged consistency in depreciation calculations. For the adjustment issue, the court adhered to the literal interpretation of Revenue Procedure 65-13, which allowed a 5% adjustment when the reserve ratio was within certain limits, finding no compelling reason for a larger adjustment.

Practical Implications

This decision clarifies that revenue procedures are generally prospective unless explicitly stated otherwise, protecting taxpayers from unexpected changes in tax computation methods. It reinforces the importance of taxpayer reliance on published IRS procedures, particularly in complex areas like depreciation. For legal practitioners, this case underscores the need to monitor IRS statements on the applicability of new procedures. Businesses can plan their tax strategies with more confidence, knowing that changes in IRS procedures will not typically disrupt established practices retroactively. Subsequent cases may cite Matson Navigation Co. to challenge retroactive applications of IRS procedures, ensuring procedural fairness in tax law administration.

