Rev. Rul. 73-395 and Section 2119 of the Tax Reform Act of 1976, 73 T. C. 723 (1980)

Section 2119 of the Tax Reform Act of 1976 does not extend the suspension of Revenue Ruling 73-395 to writers, as it applies only to the publishing industry's prepublication expenditures.

Summary

In Rev. Rul. 73-395 and Section 2119 of the Tax Reform Act of 1976, the Tax Court addressed the scope of prepublication expenditure deductions. The case centered on whether Section 2119, intended to suspend the application of Rev. Rul. 73-395, applied to writers. The majority held that it did, but Judge Chabot dissented, arguing that the legislative history clearly indicated that the provision was meant for the publishing industry, not writers. The dissent emphasized the non-binding nature of revenue rulings and criticized the majority's interpretation of the legislative intent behind Section 2119, asserting it did not cover writers' prepublication expenses.

Facts

The case involved the interpretation of Section 2119 of the Tax Reform Act of 1976, which was intended to address the IRS's Revenue Ruling 73-395. This ruling required publishers to capitalize prepublication expenditures. The House-passed bill initially focused on publishers, but the Senate Finance Committee attempted to extend relief to writers by modifying the bill. However, these changes were withdrawn before Senate consideration. The Conference Committee ultimately adopted the House bill's language, which did not explicitly include writers.

Procedural History

The case was heard by the Tax Court, where the majority opinion interpreted Section 2119 to apply to both publishers and writers. Judge Chabot dissented from this interpretation, leading to the issuance of a dissent opinion.

Issue(s)

1. Whether Section 2119 of the Tax Reform Act of 1976 extends the suspension of Revenue Ruling 73-395 to writers.
2. Whether the legislative history of Section 2119 supports the majority's interpretation that it applies to writers.

Holding

1. No, because the legislative history and the final conference agreement indicate that Section 2119 was intended to apply only to the publishing industry, not writers.
2. No, because the dissent argues that the majority's analysis of the legislative history is incorrect and unnecessary, as the conference agreement followed the

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House-passed bill which did not include writers.

Court’s Reasoning

Judge Chabot’s dissent argues that revenue rulings, like Rev. Rul. 73-395, lack the force of law and should not be the focus of extensive judicial scrutiny. He criticizes the majority for delving into the legislative history of Section 2119, asserting that it was unnecessary and misinterpreted. The dissent points out that the House-passed bill and the conference agreement focused on the publishing industry’s concerns about the ruling. The Senate Finance Committee’s attempt to extend the provision to writers was withdrawn, indicating a lack of Senate support for such an extension. The dissent stresses that the use of the pronoun “his” in the final text does not change the scope from the House bill, which did not include writers. The dissent concludes that the majority’s interpretation sets a dangerous precedent for statutory interpretation and legislative history analysis.

Practical Implications

This dissent highlights the importance of carefully considering legislative intent when interpreting tax statutes. It suggests that attorneys should be cautious in extending statutory provisions beyond their intended scope, particularly when dealing with tax deductions and industry-specific regulations. The dissent’s focus on the non-binding nature of revenue rulings serves as a reminder for practitioners to rely primarily on statutory language and clear legislative history when advising clients on tax matters. This case may influence how future courts and practitioners approach the interpretation of similar tax provisions, emphasizing the need to adhere closely to the language and intent of the legislature. Subsequent cases may reference this dissent when arguing against expansive interpretations of tax relief measures.

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