Matheson v. Commissioner, 74 T. C. 836 (1980)

A regulation imposing a shorter time limit for revoking an election under Section 165(h) than for making the election is invalid as it frustrates the statute's purpose.

Summary

In Matheson v. Commissioner, the U. S. Tax Court ruled that a regulation limiting the time for revoking a Section 165(h) election to 90 days was invalid because it was shorter than the time allowed for making the election. The Mathesons, after suffering a disaster loss, elected to deduct it in the previous tax year but later sought to revoke this election. The court found that such a restrictive time limit for revocation hindered the statute's goal of providing immediate tax relief to disaster victims, thus rendering the regulation unreasonable and contrary to the legislative intent of Section 165(h).

Facts

The Mathesons, cash basis taxpayers, suffered a disaster loss in September 1976. On October 28, 1976, they filed an amended 1975 return electing to treat the loss as if it occurred in 1975 under Section 165(h), claiming a deduction of $29,558. On January 31, 1977, they attempted to revoke this election by filing another amended 1975 return, returning the refund received. The IRS disallowed the revocation, citing the 90-day limit in Section 1. 165-11(e) of the regulations.

Procedural History

The Mathesons petitioned the Tax Court after the IRS determined a deficiency in their 1976 taxes due to the disallowed revocation of their Section 165(h) election. The court's decision focused solely on the validity of the regulation's time limit for revoking the election.

Issue(s)

1. Whether the part of Section 1. 165-11(e) of the Income Tax Regulations, which limits the time for revoking a Section 165(h) election to 90 days, is invalid as being unreasonable and contrary to the intent of Section 165(h).

Holding

1. Yes, because the regulation's 90-day limit for revoking a Section 165(h) election, which is shorter than the time allowed for making the election, frustrates the statute's purpose of providing immediate tax relief to disaster victims.

Court's Reasoning

The court reasoned that the regulation's time limit for revoking a Section 165(h) election was unreasonable and inconsistent with the statute's purpose. The court noted that Section 165(h) was designed to allow taxpayers to receive an immediate tax benefit from disaster losses without waiting until the disaster year's return was due. However, the regulation's 90-day limit for revocation effectively discouraged taxpayers from making timely elections, as they might need more time to assess the tax benefits of different election choices. The court invalidated this part of the regulation, emphasizing that the time for revoking an election should not be shorter than the time for making it. Judge Chabot's concurring opinion supported this view, arguing that the regulation's restrictions were not justified by legislative history or potential administrative concerns. Judge Nims dissented, believing that the regulation was within the Commissioner's authority and necessary for administrative order.

Practical Implications

The Matheson decision impacts how tax practitioners and taxpayers should approach Section 165(h) elections and revocations. Practically, it means that the time limit for revoking a Section 165(h) election should be at least as long as the time allowed for making the election, providing more flexibility to disaster victims in managing their tax affairs. This ruling may influence future regulations to be more aligned with statutory purposes, ensuring that administrative rules do not unduly restrict statutory benefits. It also highlights the importance of considering the legislative intent behind tax provisions when drafting or challenging regulations. Subsequent cases may reference Matheson when addressing the validity of time limits in tax regulations relative to the underlying statutes.

