Craigie, Inc. v. Commissioner, 84 T. C. 466, 1985 U. S. Tax Ct. LEXIS 104, 84 T. C. No. 34 (1985)

The common parent of a consolidated tax group has the authority to act as the sole agent for its subsidiaries in all matters related to the tax liability of the consolidated return year.

Summary

Craigie, Inc. , a former subsidiary of Fidelity Corp. , challenged the IRS's disallowance of a net operating loss carryover from 1973, which was part of Fidelity's consolidated return. The court upheld the IRS's decision, ruling that Fidelity, as the common parent, had the authority under Treasury Regulation 1. 1502-77(a) to waive the deduction on behalf of all subsidiaries, including Craigie, Inc. , even after Craigie had left the group. The decision emphasizes the binding nature of consolidated return regulations and the broad agency powers granted to the common parent.

Facts

Craigie, Inc. , was a wholly owned subsidiary of Fidelity Corp. until July 24, 1975. During its affiliation, Craigie was part of Fidelity's consolidated tax return group. In 1973, Fidelity claimed a $22,172,534 deduction for an investment loss due to an alleged fraud by Equity Funding Corp. of America. After Craigie was sold and began filing separate returns, it claimed a portion of the 1973 loss as a carryover for 1975 and 1976. The IRS disallowed this carryover after Fidelity, as the common parent, signed a waiver agreeing to the disallowance of the 1973 loss.

Procedural History

The IRS issued a notice of deficiency to Fidelity for the years 1971 through 1974, disallowing the 1973 loss. Fidelity signed a statutory notice statement-waiver on March 26, 1980, agreeing to the disallowance. Craigie, Inc. , received a notice of deficiency for 1975 and 1976, disallowing its claimed carryover deductions. Craigie filed a petition with the Tax Court, which denied its motion for partial summary judgment, affirming Fidelity's authority to sign the waiver on behalf of all subsidiaries.

Issue(s)

1. Whether Fidelity Corp. , as the common parent, was authorized to sign a waiver agreeing to the disallowance of the 1973 loss on behalf of Craigie, Inc. , a former subsidiary.

Holding

1. No, because under Treasury Regulation 1. 1502-77(a), Fidelity had the authority

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to act as the sole agent for each subsidiary in the group, including Craigie, Inc. , for all matters related to the tax liability for the consolidated return year.

Court’s Reasoning

The court’s decision was grounded in the clear language of Treasury Regulation 1. 1502-77(a), which designates the common parent as the sole agent for all subsidiaries in matters related to the consolidated return year’s tax liability. The court emphasized that by electing to file a consolidated return, all subsidiaries, including Craigie, Inc. , consented to be bound by the consolidated return regulations. The court rejected Craigie’s arguments that the notice of deficiency was invalid and that it had severed the agency relationship with Fidelity. The court noted that the regulation’s provisions apply regardless of whether a subsidiary has ceased to be a member of the group. The court also highlighted the practical administrative necessity of maintaining the common parent’s authority to manage tax matters for the entire group, even after changes in group composition.

Practical Implications

This decision clarifies that the common parent’s authority under consolidated return regulations is broad and continues even after a subsidiary leaves the group. Practitioners should advise clients considering consolidated returns of the potential long-term implications of this agency relationship. Businesses must carefully consider the benefits and burdens of filing consolidated returns, as they may be bound by actions taken by the common parent long after their departure from the group. This ruling may affect how companies structure their tax strategies, particularly in mergers and acquisitions, to account for the ongoing impact of consolidated return decisions. Subsequent cases, such as Southern Pacific Co. v. Commissioner, have reaffirmed the principles established in this case regarding the common parent’s authority.

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