Murphree v. Commissioner, 87 T. C. 1309 (1986)

The disallowance of a refundable energy credit under section 48(a)(10) constitutes a deficiency subject to Tax Court jurisdiction.

Summary

In Murphree v. Commissioner, the U. S. Tax Court held that it had jurisdiction to review the IRS's disallowance of a refundable energy credit claimed by the taxpayers. The Murphrees had claimed a $10,000 credit for their investment in solar or wind energy property through their S corporation. The IRS issued a notice of deficiency that did not include the disallowed credit in its computation but mentioned its assessment separately. The court, interpreting section 46(a)(10)(C)(ii), determined that such credits are treated as section 38 credits for deficiency purposes, thus falling within the court's jurisdiction. This ruling clarifies that refundable energy credits are not exempt from deficiency procedures, impacting how taxpayers and the IRS handle such credits in disputes.

Facts

Terence and Mary Murphree claimed a $10,000 refundable energy credit on their 1979 federal income tax return, stemming from their investment in qualifying solar or wind energy property through Tinstaafl Corp. , an S corporation in which they held shares. The IRS issued a notice of deficiency on October 19, 1984, asserting a deficiency of $10,927. 75, but the disallowed credit was not included in the deficiency calculation. Instead, the notice mentioned that $10,000 had been assessed as prepayments to credits. The Murphrees filed a petition with the Tax Court on January 14, 1985, challenging the disallowance of the credit. The IRS moved to dismiss for lack of jurisdiction over this issue.

Procedural History

The case was assigned to Special Trial Judge Carleton D. Powell. The IRS filed a motion to dismiss and strike the portion of the petition related to the refundable energy credit, arguing it was not a deficiency under the court's jurisdiction. The Tax Court, adopting the opinion of the Special Trial Judge, denied the motion and asserted jurisdiction over the disallowed credit.

Issue(s)

1. Whether the disallowance of a refundable energy credit under section 48(a)(10) constitutes a deficiency subject to the Tax Court's jurisdiction.

Holding

1. Yes, because for purposes of chapter 63, which includes the deficiency procedures, the refundable energy credit is treated as a credit under section 38,

© 2025 SCOTUSreports.com. All rights reserved.

thus falling within the Tax Court's jurisdiction to redetermine deficiencies.

Court's Reasoning

The court's decision hinged on the interpretation of section 46(a)(10)(C)(ii), which specifies that the refundable energy credit should be treated as if it were allowed by section 39 for all purposes except those in chapter 63. Since section 6211(a), defining a deficiency, is part of chapter 63, the credit must be treated as arising under section 38 for deficiency purposes. The court rejected the IRS's argument that the credit's classification as a "payment" on the tax return should exclude it from deficiency procedures, emphasizing that tax forms do not have the force of law. The court also noted that Congress could differentiate how various credits are treated under the tax code, and in this case, it chose to include the refundable energy credit in deficiency procedures.

Practical Implications

This ruling establishes that the Tax Court has jurisdiction over disputes involving the disallowance of refundable energy credits under section 48(a)(10). Taxpayers can challenge such disallowances through deficiency proceedings, rather than being limited to other avenues of review. This decision impacts how the IRS must handle such credits, ensuring they are included in deficiency notices when disallowed. For practitioners, it clarifies that refundable credits, despite their unique nature, are subject to the same procedural scrutiny as other tax credits. Subsequent cases, such as Martz v. Commissioner, have followed this precedent, reinforcing the court's jurisdiction over similar credit disputes.

© 2025 SCOTUSreports.com. All rights reserved.