First Chicago Corp. v. Commissioner, 90 T. C. 674 (1988)

The minimum tax on tax preferences should be deferred until the year in which the preferences result in a tax benefit to the taxpayer, as per the broad application of the tax benefit rule under section 58(h) of the Internal Revenue Code.

Summary

First Chicago Corp. contested the imposition of a minimum tax on tax preferences for the years 1980 and 1981, arguing that the tax should be deferred until the preferences generated a tax benefit. The Tax Court held that under section 58(h) of the IRC, which mandates the application of the tax benefit rule to minimum tax situations, the minimum tax should not be imposed in the years the preferences arose but deferred to future years when the preferences actually reduce tax liability. This ruling was grounded in the legislative intent to broadly apply the tax benefit rule, despite the lack of specific regulations from the Treasury.

Facts

First Chicago Corp. filed consolidated federal income tax returns for 1980 and 1981. The Commissioner determined deficiencies in minimum tax due to tax preferences for those years, totaling $1,261,807 and $2,246,809, respectively. The tax preferences included accelerated depreciation, percentage depletion, and capital gains. Although these preferences did not reduce First Chicago's regular tax liability in 1980 and 1981 due to sufficient foreign tax credits, they increased the amount of foreign tax credits available for carryover to future years.

Procedural History

The case was submitted to the Tax Court based on a stipulation of facts. First Chicago contested the imposition of the minimum tax, arguing for its deferral until the tax preferences produced a tax benefit. The Tax Court's decision followed the precedent set in Occidental Petroleum Corp. v. Commissioner, which involved similar issues but different tax years.

Issue(s)

1. Whether the minimum tax on tax preferences should be imposed in the years 1980 and 1981 when the preferences arose but did not result in a tax benefit to First Chicago.

2. Whether the minimum tax should be deferred to future years when the tax preferences might generate a tax benefit.

Holding

1. No, because the court interpreted section 58(h) to mean that the minimum tax

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should not be imposed until the tax preferences produce a tax benefit.

2. Yes, because section 58(h) was intended to broadly apply the tax benefit rule, allowing for the deferral of the minimum tax until the year the preferences actually reduce tax liability.

Court’s Reasoning

The court’s decision was based on the interpretation of section 58(h), which directs the Secretary of the Treasury to adjust tax preferences where they do not result in a tax reduction. The court noted the legislative intent behind section 58(h) was to apply the tax benefit rule broadly, as evidenced by congressional reports and the absence of restrictive regulations. The court rejected the government’s literal reading of section 58(h), which would impose the tax immediately, citing the impracticality and potential unfairness of such an approach. The court emphasized that the tax should be deferred until the year the preferences generate a tax benefit through the use of foreign tax credit carryovers, aligning with the purpose of section 58(h) to avoid taxing preferences that do not benefit the taxpayer.

Practical Implications

This decision impacts how the minimum tax on tax preferences is applied, particularly when the preferences do not immediately result in a tax benefit. It clarifies that such taxes should be deferred until the preferences actually reduce the taxpayer’s liability, affecting tax planning and compliance strategies. The ruling may influence future cases involving similar issues, reinforcing the broad application of the tax benefit rule. It also underscores the importance of legislative intent over strict statutory language, especially in the absence of specific regulations. The decision may encourage the Treasury to promulgate regulations that reflect the legislative purpose of section 58(h).

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