Stamm International Corp. v. Commissioner, 90 T. C. 315 (1988)

Unilateral miscalculation by one party's counsel, absent misrepresentation by the other party, is not sufficient grounds to vacate a settlement agreement.

Summary

Stamm International Corp. and the Commissioner of Internal Revenue reached a settlement agreement on tax issues related to foreign subsidiary income. After signing, the Commissioner moved to vacate the agreement, claiming his counsel miscalculated the settlement's dollar value due to an oversight of section 959 of the Internal Revenue Code. The Tax Court held that a unilateral error by one party's counsel, without misrepresentation by the other, does not justify vacating the settlement. The court also found the agreement enforceable as written, incorporating all relevant Code sections, including section 959.

Facts

Stamm International Corp. and the Commissioner settled tax disputes concerning income from Stamm's foreign subsidiary, PowRmatic, S. A. , just before trial. The settlement, detailed in a written agreement, specified issue-by-issue resolutions without mentioning a total dollar amount. After signing, the Commissioner's counsel realized that failure to consider section 959 of the Internal Revenue Code significantly reduced the amount Stamm owed. The Commissioner attempted to renegotiate, and upon failure, moved to vacate the settlement, claiming unilateral mistake and ambiguity in the agreement's terms.

Procedural History

The case was set for trial in the U. S. Tax Court, but the parties reached a settlement and filed a memorandum of settlement. After the Commissioner's motion to withdraw the settlement due to his counsel's miscalculation, the Tax Court denied the motion, holding the settlement agreement enforceable as written.

Issue(s)

1. Whether a unilateral mistake by one party's counsel, known to the other party's counsel, justifies vacating a settlement agreement.
2. Whether the settlement agreement is enforceable without specific mention of section 959 of the Internal Revenue Code.

Holding

1. No, because a unilateral mistake by one party's counsel, without misrepresentation by the other party, does not provide sufficient grounds to vacate a settlement agreement.
2. Yes, because the agreement is enforceable as written, and it implicitly

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incorporates all relevant sections of the Internal Revenue Code, including section 959.

Court’s Reasoning

The Tax Court reasoned that the Commissioner’s motion to vacate was based on his counsel’s unilateral error in calculating the settlement’s value, which is not a recognized ground for relief from a settlement agreement. The court emphasized that the Commissioner failed to show any misrepresentation by Stamm’s counsel, and mere silence about the applicability of section 959 did not constitute misrepresentation. Furthermore, the court found the settlement agreement enforceable as written, noting that it specifically referred to subpart F of the Internal Revenue Code, which includes section 959. The court rejected the Commissioner’s argument that the agreement was ambiguous regarding section 959, stating that the agreement’s terms and the Code’s cross-references necessitated its application. The court also noted that the Commissioner’s delay in raising the District Director’s concurrence issue precluded any claim that the agreement was void on those grounds.

Practical Implications

This decision reinforces the sanctity of settlement agreements in tax disputes, emphasizing that parties are bound by the terms they agree to, even if one party later discovers a calculation error. Attorneys must carefully review all applicable laws before finalizing settlements to avoid such errors. The ruling also underscores that settlement agreements should be drafted to clearly encompass all relevant legal provisions, even if not explicitly mentioned, to prevent later disputes over their applicability. For future cases, this decision may deter parties from seeking to vacate settlements based on unilateral mistakes, encouraging thorough pre-agreement due diligence. Subsequent cases, such as those involving similar tax issues or settlement disputes, may reference this ruling to uphold the enforceability of settlement agreements despite unilateral errors.

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