Shell Petroleum, Inc. v. Commissioner, 89 T. C. 371 (1987)

The proper taxable period for determining a deficiency in windfall profit tax for an integrated oil company not subject to withholding is a calendar quarter.

Summary

In Shell Petroleum, Inc. v. Commissioner, the U. S. Tax Court clarified that the appropriate taxable period for assessing deficiencies in windfall profit tax for integrated oil companies, whose tax is not withheld by the first purchaser, is a calendar quarter. This ruling came after reconsidering a previous decision that had mistakenly applied an annual taxable period based on a case involving different circumstances. The court analyzed the relevant tax code sections and regulations, concluding that quarterly filings and deposits align with the tax deficiency assessment period for such companies. This decision impacts how integrated oil companies should manage their windfall profit tax reporting and underscores the importance of distinguishing between different types of oil producers in tax law.

Facts

Shell Petroleum, Inc. , an integrated oil company, was involved in a dispute with the Commissioner over the calculation of its windfall profit tax for the quarters ending March 31, 1980, June 30, 1980, September 30, 1980, and December 31, 1980. The company did not have its taxes withheld by the first purchaser, instead depositing its own windfall profit tax liability. The disagreement centered on the attribution and allocation of expenses for calculating the taxable income from Shell's oil and gas properties, and crucially, on the proper taxable period for determining any deficiency in windfall profit tax.

Procedural History

The Tax Court initially ruled that the proper taxable period for a windfall profit tax deficiency was a calendar year, citing Page v. Commissioner, 86 T. C. 1 (1986). However, upon motion for reconsideration by the Commissioner, the court reexamined its holding and reversed its position, determining that for integrated oil companies not subject to withholding, the correct period was a calendar quarter.

Issue(s)

1. Whether the proper taxable period for determining a deficiency in windfall profit tax for an integrated oil company not subject to withholding is a calendar quarter or a calendar year?

Holding

1. Yes, because the relevant tax code and regulations require integrated oil companies not subject to withholding to file quarterly returns and make quarterly

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deposits, thus aligning the deficiency period with these quarterly obligations.

Court’s Reasoning

The court’s decision hinged on the interpretation of the Internal Revenue Code and its regulations. Specifically, section 4996(b)(7) defines a taxable period for windfall profit tax as a calendar quarter, and the regulations under sections 51. 4997-1 and 51. 4995-3 require quarterly filings and deposits for integrated oil companies not subject to withholding. The court contrasted this situation with Page v. Commissioner, which applied to producers whose taxes were withheld by the first purchaser, requiring an annual return. The court emphasized that the definition of “deficiency” under section 6211(a) aligns with the period of the return upon which tax is shown, which, for integrated oil companies, is quarterly. The court also noted that while a notice of deficiency might incorrectly state a calendar year, it remains valid if it includes the correct calendar quarter and does not mislead the taxpayer.

Practical Implications

This decision clarifies that integrated oil companies must manage their windfall profit tax on a quarterly basis, affecting their financial planning and tax compliance strategies. It emphasizes the need for careful attention to the specific circumstances of each oil producer when applying tax laws. Practitioners must ensure that clients are aware of the correct filing periods to avoid errors in deficiency assessments. This ruling may influence future cases by highlighting the distinction between different types of oil producers in tax law and could impact how similar tax regulations are drafted or interpreted.

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