Lindsey v. Commissioner, 98 T. C. 672 (1992)

Later-enacted statutes can override conflicting provisions in earlier tax treaties, specifically impacting the application of foreign tax credits against the alternative minimum tax.

Summary

In Lindsey v. Commissioner, the U. S. Tax Court addressed whether a tax treaty with Switzerland could override a U. S. statute limiting the foreign tax credit against the alternative minimum tax (AMT). Robert Lindsey, a U. S. citizen living in Switzerland, argued that the treaty's prohibition on double taxation should allow him to offset his entire AMT liability with foreign taxes paid. The court, however, ruled that the later-enacted statute (section 59(a)(2)) limiting the AMT foreign tax credit to 90% of the AMT liability prevailed over the treaty, citing the 'last-in-time' rule. This decision highlights the supremacy of domestic statutes over conflicting treaty provisions when Congress explicitly addresses the conflict.

Facts

Robert Lindsey, a U. S. citizen residing in Geneva, Switzerland, received foreign source income from his pension and interest, on which he paid Swiss taxes. On his 1988 U. S. Federal income tax return, Lindsey claimed a foreign tax credit to offset his entire U. S. tax liability. The IRS determined that Lindsey was subject to the alternative minimum tax (AMT) and, under section 59(a)(2) of the Internal Revenue Code, could only use the AMT foreign tax credit to offset 90% of his AMT liability. Lindsey argued that the U. S. -Swiss Income Tax Convention should override this limitation to prevent double taxation.

Procedural History

Lindsey filed a petition with the U. S. Tax Court challenging the IRS's determination of a $916 deficiency in his 1988 Federal income tax. The case was heard by a Special Trial Judge, whose opinion was adopted by the court. The court ruled in favor of the Commissioner, upholding the application of section 59(a)(2) over the treaty provisions.

Issue(s)

1. Whether the U. S. -Swiss Income Tax Convention overrides the limitation on the alternative minimum tax foreign tax credit under section 59(a)(2) of the Internal Revenue Code.

Holding

1. No, because the later-enacted statute (section 59(a)(2)) prevails over the conflicting treaty provision under the 'last-in-time' rule, as explicitly addressed by

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Congress in the Technical and Miscellaneous Revenue Act of 1988.

Court's Reasoning

The court applied the 'last-in-time' rule, which states that when a treaty and a statute conflict, the more recent expression of the sovereign will controls. The court noted that section 59(a)(2), enacted by the Tax Reform Act of 1986, was the later-in-time provision compared to the U. S. -Swiss Income Tax Convention of 1951. The Technical and Miscellaneous Revenue Act of 1988 (TAMRA) specifically addressed this conflict, stating that the amendments to the AMT foreign tax credit apply notwithstanding any treaty obligation in effect on the date of the Tax Reform Act's enactment. The court cited legislative history indicating Congress's intent to codify the 'last-in-time' rule for the AMT foreign tax credit limitation, thus upholding the statute over the treaty. The court also referenced the Supremacy Clause and relevant case law to support its decision.

Practical Implications

This decision clarifies that later-enacted statutes can override conflicting tax treaty provisions, particularly in the context of the AMT foreign tax credit. Practitioners advising clients with foreign income should be aware that treaty provisions cannot be relied upon to circumvent statutory limitations on tax credits, especially when Congress has explicitly addressed the conflict. This ruling may impact tax planning for U. S. citizens living abroad, as they must consider the limitations on foreign tax credits against the AMT. The decision also underscores the importance of monitoring legislative changes that may affect the interplay between treaties and domestic tax laws. Subsequent cases have cited Lindsey when addressing similar conflicts between treaties and statutes in tax law.

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