CanadianOxy Offshore Production Co. v. Commissioner, 100 T. C. 382 (1993)

Decontrol of oil prices does not terminate the windfall profit tax credit for integrated producers selling front-end tertiary oil.

Summary

CanadianOxy Offshore Production Co. , an integrated oil producer, sold tertiary incentive oil at uncontrolled prices after President Reagan's Executive Order 12,287 decontrolled oil prices in January 1981. The issue was whether this decontrol affected the calculation of tertiary incentive revenue (TIR) and the related windfall profit tax (WPT) credit. The Tax Court held that the decontrol did not terminate the front-end oil credit for integrated producers, as the credit was not based on TIR after decontrol but on allowed expenses limited by WPT paid. This decision emphasized that the legislative intent to incentivize tertiary oil production remained intact post-decontrol.

Facts

CanadianOxy Offshore Production Co. , formerly Cities Service Company, was engaged in oil exploration and production. It sold tertiary incentive crude oil at market prices from August 22, 1979, through January 28, 1981, and continued to sell oil at uncontrolled prices after President Reagan's Executive Order 12,287 decontrolled oil prices on January 28, 1981. The company did not recertify its oil as tertiary incentive oil post-decontrol. CanadianOxy claimed credits against its WPT based on allowed expenses incurred in connection with front-end tertiary projects until September 30, 1981.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in CanadianOxy's WPT for several quarters in 1982. CanadianOxy filed a petition with the U. S. Tax Court to challenge these deficiencies. The case was submitted fully stipulated, and the court issued its opinion on April 29, 1993.

Issue(s)

1. Whether the decontrol of oil prices by Executive Order 12,287 terminated the front-end oil credit for integrated producers under section 4994(c)(2) of the Internal Revenue Code.
2. Whether tertiary incentive revenue (TIR) existed for oil sold after decontrol, and if not, how the front-end oil credit should be calculated.

Holding

1. No, because the Executive Order did not directly affect front-end oil for integrated producers, and the legislative intent to incentivize tertiary oil production

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remained intact post-decontrol.
2. No, because after decontrol, there was no TIR since there was no ceiling price; the front-end oil credit should be based on allowed expenses, limited by the WPT paid.

Court's Reasoning

The court reasoned that the decontrol of oil prices did not affect front-end oil because it was already decontrolled under the tertiary incentive program. The court relied on *Gary v. United States* (708 F. Supp. 1188 (D. Colo. 1989)), which held that the decontrol did not end the exemption from WPT for independent producers. The court applied this rationale to integrated producers, emphasizing that Congress intended to incentivize all producers of tertiary oil until September 30, 1981. The court rejected the Commissioner's argument that a fictitious ceiling price should be used to calculate the credit post-decontrol, as this was not supported by the statute or legislative history. The court concluded that the credit should be based on allowed expenses, limited by the WPT paid, ensuring no double benefit or "windfall credit" was received.

Practical Implications

This decision clarifies that the decontrol of oil prices does not affect the windfall profit tax credit for integrated producers selling front-end tertiary oil. Practitioners should ensure that clients claiming such credits base their calculations on allowed expenses incurred before September 30, 1981, and not on any fictitious ceiling price post-decontrol. The ruling reinforces the legislative intent to incentivize tertiary oil production, which has implications for energy policy and tax planning in the oil industry. Subsequent cases and regulations should continue to respect this principle, ensuring that producers are not penalized for the decontrol of oil prices.

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