Central De Gas De Chihuahua, S. A. v. Commissioner, 102 T. C. 515 (1994)

The fair rental value allocated under section 482 constitutes income under section 881 even without an actual payment.

Summary

In Central De Gas De Chihuahua, S. A. v. Commissioner, the Tax Court held that the fair rental value of equipment, allocated under section 482 to the Mexican corporation Central De Gas De Chihuahua, S. A. (Central), from its commonly controlled affiliate Hidro Gas de Juarez, S. A. (Hidro), was taxable income under section 881, despite no actual payment being made. Central had leased equipment to Hidro, which used it to transport gas from the U. S. to Mexico but failed to pay rent. The IRS allocated the fair rental value to Central, asserting it as taxable income. The court ruled that the term "received" in section 881 encompasses deemed payments under section 482, ensuring the effectiveness of tax allocations between related entities.

Facts

Central De Gas De Chihuahua, S. A. , a Mexican corporation, leased a fleet of tractors and trailers to Hidro Gas de Juarez, S. A. , another Mexican corporation under common control. Hidro used the equipment to transport liquified petroleum gas from the U. S. to the Mexican border area for distribution by Pemex, the Mexican Government-operated oil company. Despite the agreed-upon rent, Hidro did not pay Central for the use of the equipment during the 1990 taxable year. The IRS, acting under section 482, allocated the fair rental value of the equipment to Central and asserted it as income subject to a 30% tax under section 881.

Procedural History

The IRS made a jeopardy assessment and determined a deficiency in Central's federal income tax for 1990. Central filed a petition with the U. S. Tax Court challenging the IRS's position. Both parties moved for summary judgment on the issue of whether section 881 applies to income allocated under section 482 without an actual payment. The Tax Court granted the IRS's motion for partial summary judgment, ruling that the fair rental value allocated to Central was taxable under section 881.

Issue(s)

1. Whether the fair rental value allocated under section 482 to Central De Gas De Chihuahua, S. A. from Hidro Gas de Juarez, S. A. constitutes income under section 881 despite no actual payment being made.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. Yes, because the term “received” in section 881 includes the fair rental value allocated under section 482, even though the amount was not actually received by Central from Hidro.

Court’s Reasoning

The court reasoned that section 881 imposes a liability for tax on amounts “received” from U. S. sources by foreign corporations, and this term encompasses deemed payments allocated under section 482. The court highlighted the broad authority of the IRS to allocate income under section 482, including the ability to “create” income by such allocations. The court rejected Central’s argument that actual payment was necessary, noting that such a requirement could undermine the effectiveness of section 482 allocations involving foreign corporations. The court also distinguished cases involving withholding obligations under sections 1441 and 1442, emphasizing that section 881 deals with the tax liability itself. Furthermore, the court found that Congress’s use of specific language requiring actual payment in other sections of the tax code indicated that no such requirement was intended for section 881.

Practical Implications

This decision has significant implications for tax planning involving related entities, particularly those operating across international borders. It clarifies that the IRS can effectively tax income allocated under section 482 to foreign corporations without the need for an actual payment, reinforcing the agency’s authority in international tax enforcement. Practitioners must consider the potential tax consequences of non-arm’s length transactions between related entities, as the IRS can allocate income based on fair market values. This ruling may affect how businesses structure their operations and transactions to minimize tax liabilities, and it serves as a precedent for future cases involving the interplay between sections 482 and 881. Subsequent cases have referenced this decision when addressing similar issues of income allocation and taxation.

© 2025 SCOTUSreports.com. All rights reserved.