***Union Texas International Corporation, f. k. a. Union Texas Petroleum Corporation, Petitioner v. Commissioner of Internal Revenue, Respondent. Union Texas Petroleum Energy Corporation Successor by Merger to Union Texas Petroleum Corporation, f. k. a. Union Texas Properties Corporation, Petitioner v. Commissioner of Internal Revenue, Respondent, 110 T. C. 321 (1998)***

Equitable estoppel can prevent a taxpayer from denying the validity of a statute of limitations extension, and taxpayers must compute the net income limitation consistently for both percentage depletion and windfall profit tax purposes.

**Summary**

In Union Tex. Int'l Corp. v. Commissioner, the court addressed three main issues related to tax assessments. First, it held that Union Texas Petroleum Energy Corporation was equitably estopped from denying the validity of a statute of limitations extension signed by officers of a merged-out entity. Second, the court confirmed the company's status as an independent producer for tax purposes, as it sold propane to unrelated third parties. Third, it ruled that the company could not recompute its windfall profit tax net income limitation differently from its percentage depletion calculations, as required by the Internal Revenue Code. The decision underscores the importance of equitable principles in tax law and the need for consistent application of tax rules.

**Facts**

Union Texas Petroleum Corporation underwent several reorganizations. In 1982, it transferred its hydrocarbons division to Union Texas Products Corporation. In 1984, it transferred domestic oil and gas properties to Union Texas Properties Corporation, which was renamed Union Texas Petroleum Corporation in 1985. By 1991, Union Texas Properties Corporation merged into Union Texas Petroleum Energy Corporation. Throughout these reorganizations, Union Texas Petroleum Energy Corporation and Union Texas International Corporation (formerly Union Texas Petroleum Corporation) were assessed windfall profit tax deficiencies for the years 1983, 1984, and 1985. The companies signed Forms 872 to extend the statute of limitations for 1985, but these were signed by officers of the defunct Union Texas Properties Corporation. The companies also claimed overpayments due to recomputed net income limitations (NIL) for windfall profit tax, which differed from their original percentage depletion calculations.

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in windfall profit tax for Union Texas Petroleum International for 1983 and 1984, and for Union Texas Petroleum Energy for 1985. The taxpayers filed petitions in the U. S. Tax Court, contesting the deficiencies and claiming overpayments. The court consolidated the

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cases and addressed three issues: the validity of the statute of limitations extension for 1985, the independent producer status of the taxpayers, and the consistency of NIL computations for percentage depletion and windfall profit tax.

**Issue(s)**

1. Whether Union Texas Petroleum Energy Corporation should be equitably estopped to deny that the limitations period for the taxable periods of 1985 was extended properly under section 6501(c)(4)?
2. Whether, pursuant to section 613A(d)(2), Union Texas Petroleum Corporation and Union Texas Properties Corporation were independent producers during the taxable years in issue?
3. Whether petitioners are entitled to recompute their windfall profit tax net income limitation computations for the taxable periods of 1983, 1984, and 1985, where the recomputations do not follow the percentage depletion calculations claimed on their original Federal income tax returns?

**Holding**

1. Yes, because Union Texas Petroleum Energy Corporation intentionally deceived the Commissioner by not disclosing the merger and allowing the signing of Forms 872 by officers of the defunct Union Texas Properties Corporation, thereby causing the Commissioner to rely on the invalid extensions.
2. Yes, because Union Texas Petroleum Corporation and Union Texas Properties Corporation sold propane to unrelated third parties and did not sell through a related retailer, thus qualifying as independent producers under section 613A(d)(2).
3. No, because section 4988(b)(3)(A) requires the net income limitation to be computed in the same manner for both percentage depletion and windfall profit tax purposes, and petitioners' recomputed NIL for windfall profit tax did not follow their original percentage depletion calculations.

**Court's Reasoning**

The court applied the doctrine of equitable estoppel to prevent Union Texas Petroleum Energy Corporation from denying the validity of the statute of limitations extension, as it had knowledge of the merger and did not inform the Commissioner, leading to detrimental reliance. The court rejected the argument that the Commissioner had constructive knowledge of the merger, as the relevant information was not readily accessible to the windfall profit tax agents. For the independent producer issue, the court found that the taxpayers retained title to their propane until sold to unrelated third parties, thus meeting the criteria of section 613A(d)(2). On the consistency of NIL computations, the court emphasized that section 4988(b)(3)(A) mandates the use of the same method for computing NIL for both percentage depletion and windfall profit tax, to prevent manipulation of tax liabilities. The court also noted that the taxpayers' attempt to rely on Shell Oil Co. v. Commissioner was misplaced, as that case did not address the issue of consistency

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between different tax calculations.

**Practical Implications**

This decision reinforces the importance of equitable principles in tax law, particularly in the context of statute of limitations extensions. Taxpayers must ensure that the correct entity signs such extensions and inform the IRS of any corporate changes that could affect their validity. Additionally, the ruling underscores the need for consistency in tax calculations, as taxpayers cannot manipulate their tax liabilities by using different allocation methods for percentage depletion and windfall profit tax. Legal practitioners should advise clients on the importance of maintaining consistent accounting practices across different tax calculations and the potential consequences of failing to disclose corporate reorganizations to the IRS. The decision may impact how similar cases are analyzed, particularly those involving corporate reorganizations and tax assessments, and could influence business practices in terms of transparency with tax authorities during audits.

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