Intel Corp. & Consol. Subsidiaries v. Commissioner, 111 T. C. 90 (1998)

Interest on tax deficiencies is not reduced by foreign tax carrybacks from subsequent years.

Summary

Intel Corporation sought to reduce interest on tax deficiencies for 1979 and 1980 using foreign tax carrybacks from 1981 and 1982. The court held that interest on deficiencies is not reduced by such carrybacks, affirming the principle that interest accrues until the deficiency is paid. The interest on the 1981 carryback ceased at the end of 1981, while the 1982 carryback's interest stopped on the due date of the 1982 return. This decision maintains symmetry in interest calculations for both overpayments and underpayments, reflecting the use-of-money principle.

Facts

Intel had tax deficiencies for 1979 and 1980. In 1981, Intel generated excess foreign taxes which it carried back to offset the 1979 and 1980 deficiencies. In 1982, additional foreign taxes were generated and carried back to further offset the 1980 deficiency. The IRS computed interest on the deficiencies from the due dates of the 1979 and 1980 returns until the end of 1981 for the 1981 carryback and until the due date of the 1982 return for the 1982 carryback. Intel moved to redetermine the interest, arguing that the carrybacks should reduce the interest.

Procedural History

Intel filed a motion in the U. S. Tax Court to redetermine interest on its deficiencies for 1979 and 1980 under section 7481(c). The case had been previously decided on other issues, with the decision entered in 1993 and affirmed by the Ninth Circuit in 1995, later amended and superseded in 1996. The current motion focused solely on the interest calculation issue.

Issue(s)

1. Whether interest on a tax deficiency is reduced by a foreign tax carryback from a subsequent year?
2. If interest does accrue, when does it stop accruing for the deficiency amounts eliminated by foreign tax carrybacks from 1981 and 1982?

Holding

1. No, because the statutory language and legislative history do not clearly express an intent to reduce interest on deficiencies by foreign tax carrybacks, maintaining the use-of-money principle.
2. The interest on the deficiency amounts eliminated by the 1981 carryback stops accruing at the end of 1981, and the interest on the deficiency amount eliminated by

the 1982 carryback stops accruing on the due date of the 1982 return, reflecting the symmetry in treatment of overpayments and underpayments.

Court's Reasoning

The court applied section 6601(a), which mandates interest on unpaid taxes from the due date until payment. It emphasized the use-of-money principle, where the party with the use of the money pays interest until it no longer has that use. The court rejected Intel's argument that the "deemed paid" language in section 904(c) should retroactively reduce deficiencies for interest calculation, citing ambiguity in the statute and the absence of clear legislative intent to deviate from the general rule. The decision followed the precedent set by Manning v. Seeley Tube & Box Co. and United States v. Koppers Co. , which upheld interest on deficiencies not reduced by carrybacks. The court also noted the symmetrical treatment of interest on overpayments and underpayments, referencing section 6611(g) (now 6611(f)(2)). The decision was influenced by the Federal Circuit's ruling in Fluor Corp. & Affiliates v. United States, which faced a similar issue.

Practical Implications

This ruling clarifies that taxpayers cannot use foreign tax carrybacks to reduce interest on deficiencies for prior years, reinforcing the use-of-money principle. Legal practitioners must consider this when advising clients on tax planning and potential interest liabilities. The decision impacts how similar cases should be analyzed, maintaining consistency in interest calculations. Businesses must account for this when managing tax payments and carrybacks. Subsequent legislation in 1997 codified this rule for future cases, but the court's interpretation remains relevant for understanding the historical context and principles guiding interest calculations in tax law.