Compaq Computer Corp. v. Commissioner, 113 T. C. 363 (1999)

A U. S. corporation is entitled to a foreign tax credit for Advance Corporation Tax (ACT) paid by a U. K. subsidiary under the U. S. -U. K. tax treaty, regardless of the subsidiary's use of the corresponding corporate offset.

Summary

Compaq Computer Corp. sought a foreign tax credit for Advance Corporation Tax (ACT) paid by its U. K. subsidiary, Compaq U. K. , which declared a dividend to Compaq. Compaq U. K. allocated the corporate offset to its subsidiaries, but the U. S. Tax Court held that Compaq was entitled to the credit under the U. S. -U. K. tax treaty. The court clarified that the payor of the ACT for credit purposes is the corporation paying the dividend, not the one using the offset. This ruling underscores the importance of treaty language in determining foreign tax credit eligibility and clarifies that corporate offset allocation does not affect credit eligibility.

Facts

In 1992, Compaq Computer Corp. , a U. S. corporation, received a dividend from its wholly owned U. K. subsidiary, Compaq Computer Group, Ltd. (Compaq U. K.). Compaq U. K. paid Advance Corporation Tax (ACT) of GBP 3,933,333 on the dividend. Compaq U. K. was entitled to a corporate offset against its U. K. mainstream corporate income tax but elected to allocate this offset to its two wholly owned subsidiaries, Compaq Computer Manufacturing, Ltd. (CCML) and Compaq Computer, Ltd. (CCL). These subsidiaries used the offset to reduce their 1992 U. K. mainstream tax liability. Compaq claimed a foreign tax credit for the ACT paid by Compaq U. K. , which was denied by the Commissioner of Internal Revenue.

Procedural History

Compaq filed a petition with the U. S. Tax Court after the Commissioner disallowed its claim for a foreign tax credit related to the ACT paid by Compaq U. K. The parties filed cross-motions for summary judgment. The Tax Court granted summary judgment in favor of Compaq, holding that it was entitled to the foreign tax credit under the U. S. -U. K. tax treaty.

Issue(s)

1. Whether Compaq Computer Corp. is entitled to a foreign tax credit for the Advance Corporation Tax paid by Compaq U. K. under the U. S. -U. K. tax treaty?

2. Whether the allocation of the corporate offset to Compaq U. K. 's subsidiaries affects Compaq's eligibility for the foreign tax credit?

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. Yes, because the U. S. -U. K. tax treaty designates the corporation paying the dividend as the payor of the ACT for foreign tax credit purposes, and this designation is not altered by the use or allocation of the corporate offset.

2. No, because the allocation of the corporate offset to Compaq U. K. ‘s subsidiaries does not affect Compaq’s eligibility for the foreign tax credit under the treaty.

Court’s Reasoning

The Tax Court focused on the plain language of Article 23(c)(1) of the U. S. -U. K. tax treaty, which treats the unrefunded portion of the ACT as an income tax imposed on the corporation paying the dividend. The court rejected the Commissioner’s argument that the Technical Explanation and Revenue Procedure 80-18 should govern the interpretation of the treaty, finding that these documents were not binding and did not reflect the intent of the treaty’s signatories. The court also noted that the treaty’s structure, which provides for a refund of the ACT to U. S. shareholders regardless of the corporate offset’s use, supported its interpretation. Additionally, the court distinguished the corporate offset from a subsidy under IRC sec. 901(i), concluding that it did not reduce the foreign tax credit’s legitimacy. The court quoted the treaty’s language to emphasize that the corporation paying the dividend is considered the payor of the ACT for foreign tax credit purposes.

Practical Implications

This decision clarifies that the eligibility for a foreign tax credit under the U. S. -U. K. tax treaty is determined by the corporation paying the dividend and the corresponding ACT, not by the use or allocation of the corporate offset. U. S. corporations with U. K. subsidiaries should carefully review their tax strategies to ensure they claim available foreign tax credits for ACT payments. The ruling may encourage multinational corporations to structure their dividend payments and tax credit claims in accordance with treaty provisions. Additionally, this case serves as a reminder of the importance of treaty language in tax planning and litigation, potentially affecting how similar cases are analyzed in the future. Subsequent cases, such as Xerox Corp. v. United States, have cited this decision to support the interpretation of treaty provisions in foreign tax credit disputes.

© 2025 SCOTUSreports.com. All rights reserved.