Chrysler Corp. v. Commissioner of Internal Revenue, 116 T. C. 465, 2001 U. S. Tax Ct. LEXIS 31 (U. S. Tax Court 2001)

In a significant ruling on foreign tax credit elections, the U. S. Tax Court held that Chrysler Corporation's attempt to convert foreign tax deductions into credits for tax years 1980, 1981, and 1982 was untimely under section 901(a) of the Internal Revenue Code. The decision hinges on the interpretation of the statute's time limitation for making such elections, clarifying that the period begins from the due date of the return for the year the foreign taxes accrue. This ruling impacts how taxpayers must approach the timing of foreign tax credit elections and underscores the importance of adhering to statutory deadlines.

Parties

Chrysler Corporation, f. k. a. Chrysler Holding Corporation, as successor by merger to Chrysler Motors Corporation and its consolidated subsidiaries, was the petitioner. The Commissioner of Internal Revenue was the respondent.

Facts

Chrysler Corporation, an accrual basis taxpayer, timely filed its federal income tax returns for the years 1980 through 1985. For the tax years 1980 through 1982, Chrysler deducted foreign taxes that accrued during those years. In 1995, Chrysler amended its returns for those years to elect foreign tax credits in lieu of the deductions, and amended its 1985 return to claim a refund from a carryover of the foreign taxes to 1985. The Commissioner disallowed Chrysler's claim, arguing that the change from deductions to credits was untimely under section 901(a) of the Internal Revenue Code.

Procedural History

Chrysler filed a petition with the U. S. Tax Court challenging the Commissioner's determination of deficiencies in its federal income taxes for the years 1983, 1984, and 1985. The Commissioner moved for partial summary judgment, asserting that Chrysler's election to credit foreign taxes for the years 1980, 1981, and 1982 was untimely. The Tax Court granted the Commissioner's motion for partial summary judgment.

Issue(s)

Whether Chrysler's election to credit foreign taxes for the tax years 1980, 1981, and 1982, made in 1995, was timely under section 901(a) of the Internal Revenue Code?

Rule(s) of Law

Section 901(a) of the Internal Revenue Code allows a taxpayer to elect to credit foreign income taxes in lieu of deducting them under section 164(a)(3). The election

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or change of election must be made before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by the chapter for such taxable year. Section 6511(d)(3)(A) provides a 10-year period of limitation from the date prescribed by law for filing the return for the year with respect to which the claim is made, specifically for foreign tax credits.

Holding

The U. S. Tax Court held that Chrysler's election to credit foreign taxes for the tax years 1980, 1981, and 1982 was untimely under section 901(a) of the Internal Revenue Code. The court determined that the 10-year period for making or changing the election began on the due dates of the returns for the years 1980, 1981, and 1982, not from the date of the 1985 return where Chrysler sought to apply the carryover.

Reasoning

The court interpreted the phrase "for such taxable year" in section 901(a) to refer to the "any taxable year" specified at the beginning of the same sentence, meaning the year for which the election of the foreign tax credit is made. This interpretation aligns with the Commissioner's regulations under section 1. 901-1(d), which state that the taxpayer may claim the benefits of section 901 for a particular taxable year within the period prescribed by section 6511(d)(3)(A). The court rejected Chrysler's argument that the election period should be measured from the year of the refund claim (1985), finding instead that the election must be made within 10 years from the due date of the return for the year the foreign taxes accrued. The court distinguished the case of Allatt v. United States, noting that the issue of timeliness under section 901(a) was not addressed in that case. The court's ruling emphasized the statutory language and the Commissioner's regulations, underscoring the importance of timely elections under the Internal Revenue Code.

Disposition

The U. S. Tax Court granted the Commissioner's motion for partial summary judgment, holding that Chrysler's election to credit foreign taxes for the years 1980, 1981, and 1982 was untimely. An appropriate order was issued to reflect this decision.

Significance/Impact

This decision clarifies the time limitation for electing foreign tax credits under section 901(a) of the Internal Revenue Code, establishing that the election must be made within 10 years from the due date of the return for the year the foreign taxes accrue. The ruling impacts taxpayers' ability to amend prior year returns to claim foreign tax credits and highlights the importance of timely elections. It also underscores the deference given to the Commissioner's regulations in interpreting

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statutory provisions. Subsequent courts have followed this ruling, reinforcing its doctrinal importance in the area of foreign tax credit elections and the application of statutory time limits.

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