Intermet Corp. & Subs. v. Commissioner, 117 T. C. 133 (U. S. Tax Ct. 2001)

The U. S. Tax Court ruled that Intermet Corporation's state tax liabilities and interest on federal and state tax liabilities qualify as 'specified liability losses' under IRC Section 172(f)(1)(B), allowing a 10-year carryback. This decision expands the scope of specified liability losses to include tax-related expenses, impacting how companies can manage their tax strategies and potentially claim larger refunds.

Parties

Intermet Corporation and its subsidiaries (Petitioner) v. Commissioner of Internal Revenue (Respondent). The case was initially heard by the U. S. Tax Court and subsequently appealed to the Sixth Circuit Court of Appeals, which remanded the case for further proceedings.

Facts

Intermet Corporation and its subsidiaries, a group of companies manufacturing precision iron castings, reported a consolidated net operating loss (CNOL) of $25,701,038 on their 1992 federal income tax return. They filed an amended return in October 1994, claiming a carryback of $1,227,973 to 1984 for specified liability losses incurred by their members. The disputed specified liability losses totaled $1,019,205. 23 and consisted of state tax deficiencies and interest on state and federal tax deficiencies paid by Lynchburg Foundry Co. , a member of the group, in 1992 following audits of their 1986, 1987, and 1988 tax returns. These losses were deducted under Chapter 1 of the Internal Revenue Code in 1992.

Procedural History

The Commissioner issued a notice of deficiency to Intermet Corporation, disallowing a substantial portion of the specified liability losses claimed in the 1992 tax return, resulting in a deficiency of $615,019 in the 1984 consolidated federal income tax return. Intermet Corporation conceded a portion of the disallowed losses, leaving $1,019,205. 23 in dispute. The U. S. Tax Court initially ruled against Intermet Corporation in 1998, but this decision was reversed and remanded by the Sixth Circuit Court of Appeals in 2000. The standard of review applied was de novo.

Issue(s)

Whether the state tax liabilities and interest on federal and state tax liabilities paid by Intermet Corporation qualify as 'specified liability losses' within the meaning of IRC Section 172(f)(1)(B)?

Rule(s) of Law

IRC Section 172(f)(1)(B) defines 'specified liability loss' as amounts deductible under the Internal Revenue Code with respect to a liability arising under federal or state

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law, where the act or failure to act giving rise to such liability occurs at least three years before the beginning of the taxable year. The taxpayer must have used an accrual method of accounting throughout the period during which the acts or failures to act occurred. The amount of specified liability loss cannot exceed the net operating loss for the taxable year.

Holding

The U. S. Tax Court held that Intermet Corporation's state tax liabilities and interest on federal and state tax liabilities qualify as 'specified liability losses' under IRC Section 172(f)(1)(B), allowing a 10-year carryback of the losses to 1984.

Reasoning

The court reasoned that the state tax deficiencies and interest on federal and state tax deficiencies directly arose under federal and state law, thus satisfying the requirement of IRC Section 172(f)(1)(B). The court distinguished this case from Sealy Corp. v. Commissioner, where the liabilities did not arise under federal or state law but from contractual obligations. The court cited Host Marriott Corp. v. United States, where interest on federal tax deficiencies was considered a specified liability loss. The court rejected the Commissioner's argument that interest accrued within three years of January 1, 1992, should be excluded, holding that the act giving rise to the liability for interest was the filing of erroneous tax returns, not the daily accrual of interest. The court also noted that the legislative history of Section 172(f)(1)(B) did not compel a narrow interpretation of the provision to exclude tax-related expenses.

Disposition

The court's decision was entered pursuant to Rule 155, allowing Intermet Corporation to carry back the specified liability losses to 1984.

Significance/Impact

This decision broadens the interpretation of 'specified liability losses' under IRC Section 172(f)(1)(B) to include tax-related expenses, which could have significant implications for corporate tax planning and the ability to claim larger refunds through extended carryback periods. It also provides clarity on the timing of acts giving rise to liabilities, particularly interest on tax deficiencies, which is important for taxpayers seeking to maximize their tax benefits. Subsequent cases have relied on this decision to determine the scope of specified liability losses, influencing tax practice and policy.

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