Allen v. Commissioner, 118 T. C. 1 (2002)

The U. S. Tax Court ruled in Allen v. Commissioner that the wage-expense limitation under Section 280C(a) of the Internal Revenue Code applies when calculating a taxpayer's alternative minimum taxable income (AMTI). This decision impacts shareholders of S corporations who claim the targeted jobs credit (TJC), as it clarifies that the full wage expense cannot be deducted for AMTI purposes if a TJC is claimed, potentially affecting the amount of TJC that can be applied against regular tax liability.

Parties

Charles C. Allen III and Barbara N. Allen, Charles C. Allen, Jr. , John R. Allen and the Estate of Sally F. Allen, John R. Allen and Judith M. Allen, John R. Allen, Jr. and Susan S. Allen, Warren L. Allen, Warren L. Allen, Jr. and Amantha S. Allen were the petitioners. The respondent was the Commissioner of Internal Revenue.

Facts

The petitioners were shareholders of Allen Family Foods, Inc. (Foods), a subchapter S corporation involved in the poultry business. During the taxable years 1994 and 1995, Foods incurred wages that qualified for the targeted jobs credit (TJC) under Sections 38 and 51 of the Internal Revenue Code. Foods claimed TJCs of $456,264 and $259,434 for 1994 and 1995, respectively, and allocated these credits to the petitioners based on their proportionate shares of ownership. In calculating their regular tax liability, petitioners included their shares of Foods' net income, which was reduced by the amount of the TJCs as required by Section 280C(a). However, for purposes of calculating their alternative minimum taxable income (AMTI), petitioners claimed deductions for their full share of Foods' wage expenses, unreduced by the TJCs.

Procedural History

The case was submitted to the U. S. Tax Court without trial. The Commissioner determined deficiencies in the petitioners' federal income taxes for 1994 and 1995, arguing that the AMTI calculation should not include the full wage expense but should be reduced by the amount of the TJCs. The petitioners contested this, asserting that the wage-expense limitation under Section 280C(a) did not apply to AMTI calculations. The Court reviewed the case to determine whether the wage-expense limitation should enter into the calculation of AMTI, applying a de novo standard of review.

Issue(s)

Whether the wage-expense limitation of Section 280C(a) enters into the calculation of a taxpayer's alternative minimum taxable income (AMTI)?

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Rule(s) of Law

Section 280C(a) of the Internal Revenue Code states that "No deduction shall be allowed for that portion of the wages or salaries paid or incurred for the taxable year which is equal to the sum of the credits determined for the taxable year under sections 45A(a), 51(a) and 1396(a). " Section 55(b)(2) defines AMTI as the taxable income of the taxpayer for the taxable year determined with adjustments provided in Sections 56 and 58, and increased by the items of tax preference described in Section 57.

Holding

The U. S. Tax Court held that the wage-expense limitation of Section 280C(a) applies in the calculation of a taxpayer's AMTI. Consequently, the portion of wages equal to the TJC is not deductible in calculating the petitioners' AMTI.

Reasoning

The Court's reasoning focused on the statutory text and legislative history. The Court interpreted the plain meaning of the statutes to mean that AMTI is calculated starting with taxable income, as defined by Section 63(a), which is then adjusted according to Sections 56, 57, and 58. Since Section 280C(a) limits the deduction of wages for taxable income, this limitation also applies to the calculation of AMTI. The Court rejected the petitioners' argument that the AMT and regular tax systems are parallel and independent, stating that such an interpretation was not supported by the unambiguous statutory text. The Court also dismissed the petitioners' reliance on legislative history and administrative guidance, finding that these did not override the plain statutory language. The Court's analysis included a review of the legislative history of both the TJC and AMT provisions, concluding that there was no explicit intent to exempt AMTI from the wage-expense limitation.

Disposition

The U. S. Tax Court entered decisions for the Commissioner in docket Nos. 1287-00, 1288-00, 1289-00, 1290-00, 1293-00, and 1618-00, and decisions under Rule 155 in docket Nos. 1291-00 and 1292-00.

Significance/Impact

The decision in Allen v. Commissioner is significant for clarifying that the wage-expense limitation under Section 280C(a) applies to the calculation of AMTI. This ruling affects shareholders of S corporations who claim the TJC, as it may reduce the amount of TJC that can be applied against regular tax liability due to the limitation on wage deductions for AMTI purposes. The decision underscores the interconnected nature of the regular tax and AMT systems, despite arguments for their parallel operation. Subsequent courts and practitioners must consider this ruling when calculating AMTI for taxpayers claiming wage-related credits, ensuring

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compliance with the statutory framework as interpreted by the Tax Court.

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