Exxon Mobil Corp. v. Commissioner, 136 T. C. 99 (2011) (U. S. Tax Court, 2011)

The U. S. Tax Court ruled it had jurisdiction to determine interest netting under I. R. C. § 6621(d), affirming taxpayers' right to relief from interest rate differentials for overlapping tax underpayments and overpayments. This decision, pivotal for large corporations, extended interest netting retroactively, allowing Exxon Mobil to reclaim over $9 million in interest, emphasizing the court's role in resolving post-decision interest disputes and clarifying the scope of interest netting applications.

Parties

Exxon Mobil Corporation and Affiliated Companies, as petitioners, brought this action against the Commissioner of Internal Revenue, as respondent, in the U. S. Tax Court. Throughout the litigation stages, Exxon Mobil was consistently the petitioner, while the Commissioner maintained the respondent role.

Facts

Exxon Mobil Corporation and its affiliates, successors to Exxon Corporation, were involved in a series of tax disputes with the Internal Revenue Service (IRS) spanning from 1975 to 1980. The IRS had assessed deficiencies and collected underpayment interest for the years 1975 through 1978, while Exxon Mobil had overpayments for 1979 and 1980. These underpayments and overpayments overlapped in time, leading to interest rate differentials due to changes in the Internal Revenue Code (IRC) in 1986 that set higher interest rates for underpayments than for overpayments. In 1998, Congress enacted IRC § 6621(d) and an uncodified special rule to address these differentials by allowing for interest netting. Exxon Mobil sought to apply this interest netting retroactively to the periods before July 22, 1998, and filed a timely claim with the IRS on December 17, 1999, under the procedures set forth in Rev. Proc. 99-43.

Procedural History

The case involved multiple layers of litigation across different forums. The IRS initially assessed deficiencies for 1977, 1978, and 1979, with Exxon Mobil challenging the 1979 deficiency in the U. S. Tax Court (docket No. 18618-89). Subsequent deficiencies for 1980, 1981, and 1982 were also contested in the Tax Court (docket No. 18432-90). Exxon Mobil's tax liabilities for 1975 through 1978 were litigated in other courts, including the U. S. Court of Federal Claims and the U. S. District Court for the Northern District of Texas, resulting in settlements or judgments that reduced but did not eliminate the assessed underpayments. The Tax Court decisions for 1979 and 1980 became final on May 27, 2004, and October 26, 2004, respectively. Exxon Mobil then filed a motion on February 28, 2005, to redetermine interest under IRC § 7481(c) for these years, leading to the present case regarding the application of interest netting under IRC § 6621(d).

© 2025 SCOTUSreports.com. All rights reserved.

Issue(s)

Whether the U. S. Tax Court has jurisdiction under IRC § 7481(c) to resolve Exxon Mobil's interest-netting claim under IRC § 6621(d)?

Whether, pursuant to IRC § 6621(d) and the uncodified special rule, Exxon Mobil is entitled to a net interest rate of zero on equivalent underpayments and overpayments in Federal income taxes for overlapping periods preceding July 22, 1998?

Rule(s) of Law

IRC § 6621(d) states, "To the extent that, for any period, interest is payable under subchapter A and allowable under subchapter B on equivalent underpayments and overpayments by the same taxpayer of tax imposed by this title, the net rate of interest under this section on such amounts shall be zero for such period. "

IRC § 7481(c) allows the Tax Court to reopen a case to determine overpayment or underpayment of interest after a decision becomes final if a motion is filed within one year of the decision's finality.

The uncodified special rule, as amended, provides that IRC § 6621(d) applies to interest for periods beginning before July 22, 1998, if the taxpayer reasonably identifies and establishes periods of such tax overpayments and underpayments for which the zero rate applies and requests the Secretary of the Treasury to apply IRC § 6621(d) by December 31, 1999, subject to the statute of limitations not having expired for either the underpayment or overpayment.

Holding

The U. S. Tax Court held that it had jurisdiction under IRC § 7481(c) to determine interest netting under IRC § 6621(d). Furthermore, the court held that Exxon Mobil was entitled to apply IRC § 6621(d) and the uncodified special rule to the overlapping periods of underpayments and overpayments for 1979 and 1980, resulting in a net interest rate of zero for those periods.

Reasoning

The court reasoned that IRC § 6621(d) is fundamentally an interest rate provision, not a separate claim for money, as it sets the net interest rate to zero for overlapping periods of equivalent underpayments and overpayments. The court rejected the IRS's argument that interest netting under IRC § 6621(d) required both the underpayment and overpayment periods to be open as of July 22, 1998, concluding that the special rule's technical correction aimed to extend interest netting relief to periods open on that date. The court emphasized the remedial nature of IRC § 6621(d), intended to relieve taxpayers from disparate interest rates, and interpreted the statute to achieve this purpose. The court also noted that Exxon

© 2025 SCOTUSreports.com. All rights reserved.

Mobil had complied with procedural requirements for filing a motion under IRC § 7481(c) within one year of the decisions becoming final for 1979 and 1980. The court's jurisdiction was limited to determining interest netting for those years, as their limitations periods were open as of July 22, 1998.

Disposition

The court granted Exxon Mobil's motion for partial summary judgment and denied the IRS's motion to dismiss for lack of jurisdiction and its cross-motion for partial summary judgment.

Significance/Impact

This decision significantly impacted the application of interest netting, allowing taxpayers to seek retroactive relief for overlapping periods of underpayments and overpayments under IRC § 6621(d). It clarified the Tax Court's jurisdiction over post-decision interest disputes and the scope of the uncodified special rule, affirming that only one of the applicable limitation periods needed to be open as of July 22, 1998, for interest netting to apply. The ruling was particularly beneficial for large corporations facing similar tax disputes, as it allowed Exxon Mobil to recover over $9 million in interest. The decision also set a precedent for the interpretation of remedial statutes in tax law, emphasizing the importance of achieving the intended congressional relief from disparate interest rates.

© 2025 SCOTUSreports.com. All rights reserved.