Uniband, Inc. v. Commissioner, 140 T. C. No. 13 (2013)

The U. S. Tax Court ruled that Uniband, Inc. , a Delaware corporation wholly owned by an Indian tribe, is not exempt from federal income tax, cannot file consolidated returns with its sister corporation, and must reduce its wage deductions by the full amount of the Indian employment credit, even if not claimed. This decision clarifies the tax treatment of corporations owned by Indian tribes, distinguishing them from the tribes themselves and impacting how such entities can offset income and claim credits.

Parties

Uniband, Inc. , the petitioner, was a Delaware corporation wholly owned by the Turtle Mountain Band of Chippewa Indians (TMBCI), the respondent was the Commissioner of Internal Revenue. Uniband was the appellant throughout the litigation.

Facts

Uniband, Inc. was incorporated in Delaware in 1987, with TMBCI initially owning 51% of its stock until 1990 when TMBCI became the sole owner. Uniband engaged in commercial activities, notably data entry services for federal agencies. It maintained its principal place of business on TMBCI’s reservation. TMBCI also owned Turtle Mountain Manufacturing Co. (TMMC) and a federally chartered corporation. For the tax years at issue (1996-1998), Uniband attempted to file consolidated returns with TMMC, claiming TMBCI as the common parent, but did not claim the Indian employment credit under I. R. C. sec. 45A, instead deducting its employee expenses in full.

Procedural History

The IRS issued a notice of deficiency to Uniband for the tax years 1996-1998, asserting deficiencies totaling $220,851 for 1996, $754,758 for 1997, and $308,498 for 1998. Uniband filed a petition with the U. S. Tax Court to redetermine these deficiencies. The case was submitted fully stipulated under Tax Court Rule 122, with the burden of proof on Uniband. The Tax Court’s decision was the final adjudication in this matter.

Issue(s)

Whether Uniband, as a State-chartered corporation wholly owned by an Indian tribe, is subject to the corporate income tax under I. R. C. sec. 11?

Whether, if Uniband is subject to tax, the consolidated returns that Uniband and TMMC filed for 1996-1998 were valid under I. R. C. sec. 1501?

Whether I. R. C. sec. 280C(a) requires that Uniband’s deductions under I. R. C. sec.

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162 for wage and employee expenses be reduced by the entire amount of the Indian employment credit determined under I. R. C. sec. 45A(a), even if Uniband did not claim the credit?

Rule(s) of Law

I. R. C. sec. 11 imposes a tax on the taxable income of every corporation. 26 C. F. R. sec. 301. 7701-1(a)(3) states that a corporation wholly owned by a State or a tribe incorporated under specific federal laws is not recognized as a separate entity for federal tax purposes. I. R. C. sec. 1501 allows an affiliated group of corporations to file a consolidated return, with specific requirements for inclusion and consent. I. R. C. sec. 280C(a) disallows deductions for wages or salaries equal to the sum of credits determined under I. R. C. sec. 45A(a).

Holding

The Tax Court held that Uniband is subject to federal income tax as it is a separate entity from TMBCI. The consolidated returns filed by Uniband and TMMC were invalid because TMBCI, as an Indian tribe, was not eligible to join in the filing of a consolidated return, and Uniband and TMMC alone did not constitute an affiliated group. Uniband's deductions for wage and employee expenses must be reduced by the full amount of the Indian employment credit determined under I. R. C. sec. 45A(a), regardless of whether the credit was claimed.

Reasoning

The court's reasoning was based on several key points:

Indian tribes are not inherently immune from federal taxes; their tax status depends on congressional action. No treaty or statutory exemption applies to TMBCI or Uniband specifically regarding income tax. Uniband, as a State-chartered corporation, is a separate legal entity from TMBCI and not an integral part of the tribe, thus not sharing TMBCI's non-liability for federal income tax. The court analyzed whether Uniband could be considered an integral part of TMBCI or equivalent to a section 17 corporation under the Indian Reorganization Act, finding it did not meet the criteria for such status. Regarding the consolidated returns, TMBCI was not recognized as a corporation under I. R. C. sec. 7701(a) and 26 C. F. R. sec. 301. 7701-2(b), and thus could not serve as the common parent for a consolidated group. The returns were also invalid because TMBCI did not make or consent to the returns, nor did it report its items on them for 1996 and 1997. On the wage deduction issue, the court interpreted the plain language of I. R. C. sec. 280C(a) to require reduction of deductions by the amount of the credit determined under I. R. C. sec. 45A(a), irrespective of whether the credit was claimed or limited by I. R. C. sec. 38(c)(1).

Disposition

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The court sustained the IRS's determinations regarding Uniband's tax liabilities for the years 1996-1998, finding Uniband liable for federal income tax, the consolidated returns invalid, and the wage deductions properly reduced by the full amount of the Indian employment credit.

Significance/Impact

This decision clarifies the tax status of corporations wholly owned by Indian tribes, distinguishing them from the tribes themselves and impacting their ability to file consolidated returns and claim certain tax credits. It reinforces the principle that such corporations are subject to federal income tax unless specifically exempted by statute. The ruling also affects the strategic considerations of tribes and their corporate entities in structuring business operations and tax planning, particularly regarding the use of consolidated returns and the claiming of tax credits like the Indian employment credit.

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