Adams Challenge (UK) Limited v. Commissioner of Internal Revenue, 156 T. C. No. 2 (2021)

The U. S. Tax Court ruled that Adams Challenge (UK) Limited, a U. K. corporation, could not claim deductions for tax years 2009 and 2010 because it failed to file U. S. tax returns before the IRS prepared returns for it under I. R. C. § 6020(b). The decision upholds the statutory requirement that foreign corporations must file timely returns to claim deductions, clarifying that the filing must occur before IRS intervention.

Parties

Adams Challenge (UK) Limited, a U. K. corporation, was the petitioner. The Commissioner of Internal Revenue was the respondent. The case was adjudicated by the U. S. Tax Court.

Facts

Adams Challenge (UK) Limited (Adams) is a U. K. corporation whose sole income-producing asset during the years in question was a multipurpose support vessel chartered to EPIC Diving & Marine Services, LLC (EPIC), for decommissioning oil and gas wells on the U. S. Outer Continental Shelf in the Gulf of Mexico. Adams earned gross income of approximately $32 million from this charter during 2009 and 2010, which was effectively connected with the conduct of a U. S. trade or business. Adams did not file U. S. income tax returns for these years. On April 9, 2014, the IRS prepared and subscribed returns for Adams under I. R. C. § 6020(b). On November 25, 2014, the IRS issued a notice of deficiency, determining that Adams was not entitled to any deductions or credits for 2009 and 2010 due to its failure to file returns. Adams petitioned the U. S. Tax Court for redetermination on February 20, 2015, and submitted protective returns for these years on February 15, 2017.

Procedural History

The IRS issued a notice of deficiency to Adams on November 25, 2014, determining that Adams was entitled to no deductions or credits for 2009 and 2010 due to its failure to file returns. Adams timely petitioned the U. S. Tax Court for redetermination on February 20, 2015. Adams filed protective returns for 2009 and 2010 on February 15, 2017, after the IRS had prepared returns for it. The U. S. Tax Court considered cross-motions for partial summary judgment, with Adams challenging the IRS's disallowance of deductions and credits, and the IRS urging that its action was consistent with I. R. C. § 882(c)(2) and the U. S. -U. K. income tax treaty.

Issue(s)

Whether a foreign corporation that fails to file a U. S. income tax return before the IRS prepares a return for it under I. R. C. § 6020(b) is entitled to deductions and

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credits under I. R. C. § 882(c)(2)?

Whether I. R. C. § 882(c)(2), as interpreted, violates the business profits or nondiscrimination articles of the U. S. -U. K. income tax treaty?

Rule(s) of Law

I. R. C. § 882(c)(2) states that a foreign corporation shall receive the benefit of deductions and credits only by filing or causing to be filed with the Secretary a true and accurate return, in the manner prescribed in subtitle F, including therein all the information which the Secretary may deem necessary for the calculation of such deductions and credits. I. R. C. § 6020(b) permits the Secretary to make returns for persons who fail to do so. The regulations under § 1. 882-4(a)(3)(i) specify that a foreign corporation must file a return within 18 months after the due date set forth in § 6072 to claim deductions and credits.

Holding

The U. S. Tax Court held that Adams was not entitled to deductions or credits for 2009 and 2010 under I. R. C. § 882(c)(2) because it failed to file returns before the IRS prepared returns for it under § 6020(b). The court further held that I. R. C. § 882(c)(2), as interpreted, does not violate the business profits or nondiscrimination articles of the U. S. -U. K. income tax treaty.

Reasoning

The court's reasoning was based on established precedent that a foreign corporation must file a return before the IRS prepares one for it under § 6020(b) to claim deductions and credits. The court cited Taylor Securities, Inc. v. Commissioner, Blenheim Co. v. Commissioner, and Espinosa v. Commissioner, which established that the IRS's preparation of a return under § 6020(b) constitutes the "terminal date" by which a foreign corporation must file its own return. The court rejected Adams's argument that the statute's requirement of a "true and accurate return" should not include a timing element, emphasizing that the statute and regulations work harmoniously to ensure compliance with U. S. tax laws. The court also considered the U. S. -U. K. income tax treaty, finding no conflict between the treaty's business profits and nondiscrimination articles and the statute's administrative requirements. The court noted that both the U. S. and U. K. recognized that the treaty does not require a contracting state to alter its existing administrative practices.

Disposition

The U. S. Tax Court granted the IRS's cross-motion for partial summary judgment and denied Adams's motion for partial summary judgment.

Significance/Impact

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This decision reinforces the importance of timely filing for foreign corporations seeking to claim deductions and credits under U. S. tax law. It clarifies that the filing must occur before the IRS's intervention under § 6020(b), emphasizing the administrative necessity of such a requirement to prevent tax evasion. The decision also affirms that the U. S. -U. K. income tax treaty does not override the statutory filing requirements, maintaining the balance between international tax obligations and domestic administrative practices. This ruling may influence future cases involving foreign corporations and their compliance with U. S. tax filing requirements, potentially affecting how such entities structure their tax planning and compliance strategies.

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