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U.S. Tax Court: Interest on deficiency when tax-exempt status is revoked

The U.S. Tax Court today issued an opinion finding that after IRS revocation of an entity's tax-exempt status, the starting date for computing interest on the ensuing corporate income tax deficiency is determined by reference to the date when the corporate income tax return would have been due, and not the date when the IRS issued the final determination letter revoking the tax-exempt status.

The case is: *Creditguard of America, Inc. v. Commissioner*, 149 T.C. No. 17 (October 10, 2017). Read the Tax Court's [opinion](#) [PDF 74 KB]

Summary

The IRS revoked the taxpayer's tax-exempt status in 2012, but made the revocation retroactive to January 1, 2002, and eventually issued a notice of deficiency for that year. In a prior Tax Court decision, a deficiency of approximately \$217,000 was determined for the 2002 tax year.

At issue in this proceeding was the computation of interest on the tax deficiency that arose when the IRS retroactively revoked the taxpayer's tax-exempt status. Upon revocation of its tax-exempt status, the taxpayer was required to file a corporate income tax return on Form 1120 for 2002.

The IRS contended that the start date for computing interest on the deficiency was determined by reference to the date for filing Form 1120 for 2002, by a corporation that uses the calendar year as its tax year. In this instance, that date would be March 17, 2003.

The taxpayer countered that the starting date for computing interest would be the date when the IRS issued the final determination letter revoking its tax-exempt status—here, February 1, 2012.

The Tax Court granted summary judgment for the IRS, and concluded that the taxpayer was liable for interest beginning on the date its 2002 corporate tax return would have been due.

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