



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

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The Honorable Wayne Allard
United States Senator
954 East Second Avenue, Suite 107
Durango, CO 81301

Attention:

Dear Senator Allard:

I am responding to your letter dated July 12, 2007, on behalf of your constituent, . He asked about the tax due on a settlement payment he received in 2006.

As one of the gas royalty owners who were part of a class action lawsuit, received a lump sum payment for certain amounts wrongfully deducted from royalty payments over a 15-year period (see *Parry v. Amoco Production Co.*, 2003 WL 23306663). noted that the income tax on the lump sum payment is higher than the tax that he otherwise would have incurred if he had received the correct amount of royalty payments over the 15-year period.

Prior to 1987, individuals who had an unusual increase in income for a single year could average their income over multiple years to mitigate the adverse tax effects. However, current law only allows this for individuals if the income is from a farming or fishing business (section 1301 of the Internal Revenue Code). Legislation would be required to expand income averaging to your constituent's situation.

I hope this information is helpful. If you need further assistance, please contact me at
or at .

Sincerely,

Lewis J. Fernandez
Associate Chief Counsel