1 T.C. 629 (1943)

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When an estate sells property in an installment sale and then distributes the installment obligations to residuary trusts, the distribution accelerates the taxation of the deferred gain to the estate, and the character of the distribution is deemed a distribution of corpus, not income.

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Summary

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The Estate of Henry H. Rogers sold stock in an installment sale, receiving cash and serial notes. The executors then distributed some of the serial notes to themselves as trustees of residuary trusts. The Tax Court addressed whether the initial sale qualified for installment sale treatment, whether the distribution of the notes triggered immediate recognition of the deferred gain, whether a deduction was available for the distribution, and what percentage of the gain should be recognized. The court held that the sale qualified as an installment sale, the distribution accelerated the gain, no deduction was allowed, and the original holding period of the stock determined the percentage of gain to be recognized.

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Facts

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Henry H. Rogers' estate included shares of Virginian Railway Co. stock. The executors agreed to sell a portion of the stock to Koppers Co. Koppers formed The Virginian Corporation to facilitate the purchase. The executors transferred the railway stock to Virginian Corporation in exchange for Virginian Corporation stock and collateral trust notes. Koppers then purchased the Virginian Corporation stock from the executors for cash. The executors elected to report the gain on the installment basis.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in the estate's income tax, arguing the sale did not qualify for installment treatment. The Commissioner then argued that the distribution of the installment obligations triggered immediate gain recognition. The Tax Court reviewed the Commissioner's determination and the estate's alternative arguments for a deduction or a lower percentage of gain recognition.

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Issue(s)

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1. Whether the sale of stock by the estate qualified for installment sale treatment under Section 44(b) of the Revenue Act of 1936.

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2. Whether the distribution of the collateral trust notes to the residuary trusts triggered the recognition of deferred gain under Section 44(d) of the Revenue Act of 1936.

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3. Whether the estate was entitled to a deduction under Section 162(c) of the Revenue Act of 1936 for the distribution of the notes to the trusts.

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4. Whether the percentage of gain to be taken into account under Section 117(a) should be determined by the original holding period of the stock or the holding period of the installment obligations.

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Holding

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1. Yes, because the Virginian Corporation was the actual purchaser, and the collateral trust notes were evidences of its indebtedness.

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2. Yes, because the distribution of the installment obligations to the trusts constituted a disposition triggering immediate recognition of the deferred gain.

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3. No, because the distribution to the trusts was a distribution of corpus, not income.

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4. The percentage of gain should be determined by the original holding period of the stock.

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Court’s Reasoning

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The court reasoned that the Virginian Corporation was not merely a

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