3 T.C. 161 (1944)

r
r

Parol evidence is admissible in tax disputes involving third parties (like the IRS) to determine the actual consideration exchanged in a transaction, even if it contradicts the written agreement.

r
r

Summary

r

Haverty Furniture Co. transferred two life insurance policies to Haverty Realty & Investment Co. for a stated consideration that was never actually paid. Upon the death of one insured, the Realty Co. received proceeds, and later sold the other policy. The IRS sought to include these amounts in the Realty Co.'s gross income, arguing the policies were transferred for valuable consideration. The Tax Court held that parol evidence was admissible to show that no actual consideration was exchanged, allowing the Realty Co. to exclude the life insurance proceeds from income and use the donor's basis for the sold policy.

r
r

Facts

r

r
Two life insurance policies, insuring the lives of John Rhodes Haverty and Clarence Haverty, were owned by Haverty Furniture Co. of Atlanta. Clarence and J.J. Haverty equally owned the Furniture Co.'s stock. In May 1929, the Furniture Co. transferred the policies to Haverty Realty & Investment Co., another corporation owned equally by Clarence and J.J. Haverty. Corporate resolutions stated the Realty Co. would pay $2,840.25 for the policies, representing premiums paid since January 1, 1929. Assignment documents recited specific consideration for each policy. However, the stated consideration was never paid or intended to be paid. The transfer occurred because the Furniture Co. was merging with other companies, and the underwriters didn't want the policies included in the new holding company's assets. John Rhodes Haverty died in 1940, and the Realty Co. received $25,087.50. The Realty Co. then sold the policy on Clarence Haverty's life for $32,069. The Realty Co. liquidated shortly thereafter.r

© 2025 SCOTUSreports.com. All rights reserved.

r
r

Procedural History

r

r
The Commissioner of Internal Revenue determined deficiencies in the Haverty Realty & Investment Co.’s income tax, declared value excess profits tax, and excess profits tax for 1940. The Realty Co. petitioned the Tax Court for redetermination of these deficiencies. The Tax Court addressed whether the life insurance proceeds and the gain from the policy sale were includible in the Realty Co.’s gross income. The Tax Court ruled in favor of the Realty Co., finding no deficiency existed.r

r
r

Issue(s)

r

r
Whether parol evidence is admissible to contradict the stated consideration in written instruments transferring life insurance policies when the Commissioner of Internal Revenue, a third party to the transaction, seeks to determine tax liability based on the transfer.r

r
r

Holding

r

r
Yes, because the Commissioner was not a party to the original transactions, and the parol evidence was offered to clarify the actual consideration exchanged, which is always permissible. Because no actual consideration was given, the life insurance proceeds are excludable from gross income, and the company takes the donor’s basis in the second policy.r

r
r

Court’s Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

r

r

The Tax Court reasoned that the parol evidence rule, which generally prevents parties to a written agreement from introducing extrinsic evidence to contradict its terms, does not apply to third parties like the Commissioner. The court emphasized that the Commissioner's claim was based on a tax liability, not a right derived from either party to the contract. The court cited numerous cases supporting the principle that the parol evidence rule cannot be invoked by a stranger to the contract. Moreover, the court noted that even among the parties to a contract, parol evidence is always admissible to inquire into the actual consideration exchanged. Quoting *Deutser v. Marlboro Shirt Co.*, the court stated,

© 2025 SCOTUSreports.com. All rights reserved.