3 T.C. 427 (1944)

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When determining eligibility for income averaging under Section 107 of the Internal Revenue Code for compensation received for services rendered over multiple years, ‘completion of services’ refers to the specific services for which the compensation was paid, not necessarily the completion of the entire undertaking.

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Summary

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Harry L. Additon and H. Ellis Straw, as members of a bank’s liquidating committee, received compensation in 1940 for services rendered since 1931. They sought to average this income over the prior years under Section 107 of the Internal Revenue Code. The Tax Court held that they were entitled to this treatment because the services for which they were compensated—converting assets to liquid form and arranging distributions—were completed by the time they received payment, even though the liquidation process was ongoing. This case clarifies the meaning of ‘completion of such services’ under Section 107.

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Facts

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In 1931, Additon and Straw were appointed to the liquidating committee of the First National Bank of Manchester. Their initial task was to liquidate the bank’s assets and distribute dividends to stockholders. By 1940, the committee had liquidated most assets except for some insurance policies. In 1940, the committee arranged for stockholders to sell their stock to other stockholders if they wanted immediate payment, using the cash value of the insurance policies as a basis. Additon and Straw received payment in 1940 for their services from 1931, but the liquidation was not formally complete.

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Procedural History

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Additon and Straw reported their compensation in their 1940 tax returns but sought to average the income over the previous years under Section 107 of the Internal Revenue Code. The Commissioner of Internal Revenue disallowed this treatment, leading to a deficiency assessment. The case was brought before the Tax Court.

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Issue(s)

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Whether the compensation received by Additon and Straw in 1940 was

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