147 F.2d 769 (7th Cir. 1945)

An assignment of the right to receive proceeds from a pending legal claim, where the judgment is practically assured, constitutes an anticipatory assignment of income, taxable to the assignor rather than the assignee.

Summary

Doyle assigned portions of his interest in a syndicate, which held rights to proceeds from a judgment against the U.S. government, to his wife and sons as gifts. The IRS assessed a deficiency against Doyle, arguing the distributions to his family were taxable to him as an anticipatory assignment of income. The Seventh Circuit affirmed the Tax Court's decision, holding that because the judgment was virtually certain at the time of the assignments, Doyle was merely assigning his right to future income, which remained taxable to him despite the gift. The court distinguished this from a transfer of income-producing property.

Facts

- Doyle had an interest in the Young syndicate.
- The Young syndicate held Friedeberg's interest in an agreement with Briggs & Turivas, which included rights to share in any recovery from a Court of Claims suit against the United States.
- Briggs & Turivas had a claim against the U.S. government for breach of contract by the Emergency Fleet Corporation.
- In 1937 and 1938, Doyle assigned portions of his interest in the Young syndicate to his wife and sons as gifts.
- At the time of the assignments, the Court of Claims had already rendered judgment in favor of Briggs & Turivas, and the Supreme Court had denied certiorari, making the judgment final.
- The only remaining step was Congressional appropriation for payment.
- The IRS determined that the distributions to Doyle's wife and sons were taxable to Doyle.

Procedural History

- The Commissioner of Internal Revenue determined a deficiency in Doyle's income tax for 1938, including in his income the amounts received by his wife and sons.
- Doyle challenged this determination in the Tax Court.
- The Tax Court upheld the Commissioner's determination.
- Doyle appealed to the Seventh Circuit Court of Appeals.

Issue(s)

1. Whether the assignment of an interest in the proceeds of a judgment, which was virtually certain to be paid, constitutes an anticipatory assignment of

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income taxable to the assignor.

Holding

1. Yes, because at the time of the assignment, Doyle possessed a right to future income that was almost certain to be received. The assignment merely directed the flow of that income to his wife and sons, and did not constitute a transfer of income-producing property.

Court’s Reasoning

The court reasoned that Doyle’s gifts to his wife and sons were not gifts of income-producing property, but rather gifts of a right to receive future income. The court emphasized that the judgment in favor of Briggs & Turivas was final and that only a Congressional appropriation was needed to ensure payment. At this point, the gain that Doyle expected to derive from his investment was practically assured. The court likened the situation to *Harrison v. Schaffner*, where the assignment of future trust income was held taxable to the assignor. The court stated, “We can see no escape from the proposition that the taxpayer never owned, and therefore never transferred to his wife and sons, anything but an interest in a possible future gain to be derived from the realization of proceeds of a judgment against the United States for its breach of contract. Hence, it is not important to consider whether such an interest may be called property, for even so it is still an interest in future income.”

Practical Implications

This case clarifies the distinction between assigning income-producing property and assigning the right to receive future income. It highlights that when a taxpayer assigns a right to receive income that is virtually certain to be paid, the income remains taxable to the assignor, even if the assignment is structured as a gift. This ruling is particularly relevant in situations involving pending legal claims, royalties, or other forms of deferred compensation. The certainty of payment at the time of assignment is a crucial factor. Later cases may distinguish *Doyle* if the assigned right was subject to significant contingencies or uncertainties at the time of the transfer. It informs tax planning by encouraging taxpayers to transfer income-producing assets *before* the right to income is substantially vested and certain.

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