3 T.C. 1092 (1944)

An assignment of the right to receive future income, even if framed as a transfer of property, is still taxable to the assignor when the income is eventually received by the assignee.

Summary

Richard Doyle assigned portions of his interest in a future judgment payout to his wife and sons after the judgment was final but before payment. The Tax Court held that the income was taxable to Doyle, the assignor, not to his wife and sons, the assignees. The court reasoned that Doyle was assigning the right to receive future income, and the assignment of income doctrine dictates that such income is taxable to the one who earned it, regardless of who ultimately receives it. The critical factor was that the right assigned represented an interest in a future gain that was virtually assured.

Facts

Briggs & Turivas (B&T) had a contract with the U.S. Shipping Board that was breached. B&T sued and won a judgment in the Court of Claims. Doyle, along with others, acquired an interest in the proceeds of this judgment through an assignment from a prior party (Friedeberg). After the Supreme Court denied certiorari, and with payment from Congress pending, Doyle assigned portions of his interest to his wife and two minor sons as gifts. The judgment was paid out, and Doyle's wife and sons received their assigned shares.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Doyle's income tax, including in his gross income the amounts received by his wife and sons from the judgment proceeds. Doyle challenged this determination in the Tax Court.

Issue(s)

Whether the assignment of a portion of a taxpayer's interest in the future proceeds of a judgment, made after the judgment is final but before payment, constitutes an anticipatory assignment of income taxable to the assignor, or a transfer of property, the income from which is taxable to the assignee?

Holding

No, the assignment constituted an anticipatory assignment of income because the taxpayer, Doyle, assigned a right to future income, not a capital asset. Therefore, the income is taxable to Doyle, because he cannot escape taxation by gifting income about to be received.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The Tax Court emphasized that Doyle’s gifts were not of income-producing property, but rather of a right to receive income that was virtually certain. The court distinguished this from a gift of property that then generates income, which would be taxable to the donee. The court reasoned that before the assignment, Doyle’s gain was practically assured because the judgment was final, and only congressional appropriation remained. The court stated, “While it is not incorrect to speak of this as ‘property,’ it is still but a contractual expectancy of gain to be derived when the interest is reduced to cash by the distribution of the net proceeds of the judgment.” Citing *Helvering v. Horst* and *Harrison v. Schaffner*, the court applied the principle that one cannot avoid income tax by assigning the right to receive income. The fact that the amounts were used for the children’s education was not controlling.

Practical Implications

This case illustrates the importance of distinguishing between assigning income-producing property and assigning the right to receive future income. If the assignment occurs close to the realization of income and the assignor has a high degree of certainty of receiving the income, courts are more likely to view it as an assignment of income taxable to the assignor. The assignment of income doctrine continues to be a crucial tool for the IRS to prevent taxpayers from avoiding taxes by gifting income about to be received. Later cases applying this principle often focus on the degree of certainty of the income stream at the time of the assignment.

© 2025 SCOTUSreports.com. All rights reserved.