T.C. Memo. 1944-192

Proceeds received by an executive upon resignation and transfer of stock trust shares back to the corporation are taxable as ordinary income, representing compensation for services, rather than as capital gains.

Summary

Richardson, an officer of Chrysler Corporation, resigned and transferred his shares in a company stock trust. The Tax Court addressed whether the money received for these shares constituted ordinary income or capital gains. The court, relying on the precedent set in *Frazer v. Commissioner*, held that the proceeds were taxable as ordinary income because they represented compensation for services rendered. The court distinguished the case from *Commissioner v. Alldis*, emphasizing that the *Frazer* decision was controlling.

Facts

The petitioner, Richardson, was an officer of the Chrysler Corporation. He held shares in a trust established by Chrysler for its executives. Upon his resignation from Chrysler, Richardson transferred his 205 shares in the trust back to the corporation and received a sum of money in return. The central issue was whether this money was taxable as ordinary income or as a capital gain.

Procedural History

The Commissioner of Internal Revenue determined that the proceeds from the stock trust were taxable as ordinary income. Richardson appealed to the Tax Court, arguing that the proceeds should be treated as capital gains. The Tax Court reviewed the case, considering prior decisions, particularly *Commissioner v. Alldis* and *Frazer v. Commissioner*.

Issue(s)

Whether the money received by the petitioner upon his resignation and transfer of stock trust shares to the Chrysler Corporation constitutes compensation for services rendered, and is therefore taxable as ordinary income, rather than capital gain.

Holding

Yes, because the net proceeds paid to the petitioner upon his resignation as an executive of the Chrysler Corporation are taxable as ordinary income for the year 1937, consistent with the ruling in *Frazer v. Commissioner*.

Court’s Reasoning

The court relied heavily on the precedent established in *Frazer v. Commissioner*,

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which addressed a similar fact pattern involving executives of Chrysler Corporation and the same stock trust. The court acknowledged the petitioner's reliance on *Commissioner v. Alldis*, but it favored the reasoning in *Frazer*. The court explicitly stated that if there was a conflict between the two cases regarding the nature of income derived from the disposition of the trust shares, the later pronouncements in the *Frazer* case were controlling. The court dismissed the argument that an amendment to the trust instrument in *Frazer*, where shares were surrendered to the trust rather than transferred to Chrysler Corporation, distinguished that case from the current proceeding. The underlying principle remained that the proceeds were compensatory in nature, derived from the executive's employment relationship with Chrysler, and thus taxable as ordinary income.

Practical Implications

This case, along with *Frazer v. Commissioner*, provides a clear precedent that proceeds from the disposition of stock trust shares, particularly in situations involving executive resignations and transfers of shares back to the corporation, are likely to be treated as ordinary income by the IRS. Attorneys advising executives in similar circumstances must counsel their clients that such proceeds are likely to be taxed as ordinary income, not capital gains. This decision highlights the importance of carefully examining the terms of stock option plans and trust agreements to determine the tax implications of various transactions. It also demonstrates the importance of relying on the most recent precedent when analyzing tax issues where conflicting case law exists.

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