14 T.C. 473 (1950)

When a business is sold in its entirety, the sale is not subject to OPA price regulations applicable to individual assets, and the entire proceeds can be treated as capital gains.

Summary

August Braun sold his embroidery business, including machinery, lease, goodwill, and trade name. The Commissioner of Internal Revenue argued that the sale was merely a sale of machinery above OPA ceiling prices, and thus the excess should be treated as ordinary income. The Tax Court held that Braun sold his entire business, not just the machinery. Since OPA regulations did not apply to the sale of an entire business, the full proceeds qualified for capital gains treatment. The court emphasized that Braun intended to and did retire from the business, further supporting the characterization of the sale as a complete disposition of a going concern.

Facts

August Braun operated an embroidery-manufacturing business. He owned three Reiner embroidery machines, a punching machine, a repeating machine, a mending machine, and a chainstitch machine. The machines were difficult to secure and could only be purchased from actual users during the war. On July 6, 1944, Braun sold the business to Jacob Rohde, including the machinery, leasehold interest, goodwill, and trade name. The sale agreement included a covenant not to compete for three months. Braun intended to retire from the embroidery business and did not re-enter it after the sale.

Procedural History

The Commissioner determined a deficiency in Braun’s income tax, arguing that the sale of the machinery exceeded OPA ceiling prices, and the excess was ordinary income. Braun contested this determination in the Tax Court.

Issue(s)

Whether the sale by Braun constituted a sale of his entire business, or merely a sale of individual machines subject to OPA price regulations.

Holding

No, because Braun sold his entire embroidery business, including machinery, lease, goodwill, and trade name, and intended to retire from the business. OPA regulations did not apply to the sale of an entire business.

Court’s Reasoning

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The Tax Court emphasized that Braun sold not only the machines but also the lease, goodwill, and trade name. The court noted Braun's intent to retire and his subsequent non-participation in the embroidery business. The court stated,

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