17 T.C. 584 (1951)

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The proceeds from the liquidation of wine pools received by an estate and subsequently distributed to a beneficiary are not taxable to the beneficiary as "income in respect of a decedent" under Section 126 when the liquidation occurs after the decedent's death and the beneficiary holds the property interest.

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Summary

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Rose Linde, the petitioner, received proceeds from the liquidation of wine pools in 1944 and 1945, stemming from her deceased husband's interests in cooperative marketing associations. The Tax Court addressed whether these proceeds were taxable to Linde as "income in respect of a decedent" under Section 126 of the Internal Revenue Code. The court held that proceeds received by the estate and distributed to Linde in 1944 were not taxable to her under Section 126, and proceeds she received in 1945 were also not Section 126 income because the liquidation occurred after her husband's death. The court also determined that the excess of liquidation proceeds over the fair market value of the wine pool interests at the time of inheritance constituted capital gains.

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Facts

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Herman Lange, Rose Linde's husband, died on December 10, 1943. He was a vineyard owner and member of cooperative marketing associations like East-Side Winery and Cherokee Vineyard Association. These associations processed members' grapes into wine and marketed the products. Lange had interests in various "wine pools" managed by these cooperatives. After Lange's death, his estate received proceeds from the liquidation of these pools in 1944, which were then distributed to Linde as the sole beneficiary. Linde herself received further liquidation proceeds in 1945. The liquidation proceeds exceeded the appraised value of Lange's interests for federal estate tax purposes.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies against Linde for 1944 and 1945, arguing the wine pool proceeds were taxable to her as “income in respect of a decedent.” Linde paid the additional assessments and claimed overpayments, petitioning the Tax Court for a redetermination of her tax liability. The Tax Court addressed the taxability of these proceeds under Section 126 of the Internal Revenue Code.

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Issue(s)

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1. Whether proceeds from wine pool liquidations and other amounts owed to the deceased husband, received by the estate in 1944 and distributed to the petitioner, are taxable to the petitioner in 1944 under Section 126 of the Internal Revenue Code?

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2. Whether proceeds received by the petitioner in 1945 from the liquidation of her deceased husband’s wine pool interests, acquired by bequest, constitute “income in respect of a decedent” taxable to the petitioner under Section 126?

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3. If either of the above is answered negatively, whether the amounts by which liquidation proceeds exceed the fair market value of the petitioner’s interests are taxable in 1944 and 1945, and if so, as ordinary income or capital gains?

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Holding

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1. No, because Section 126 income is taxable to the recipient, and the estate received and distributed the income.

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2. No, because the liquidation of the wine pools occurred after the decedent's death, at which time the petitioner held the property interests.

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3. Yes, the amount by which liquidation proceeds exceed the fair market value of the petitioner's interests constitutes capital gains taxable to her when received in 1944 and 1945.

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Court's Reasoning

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The court reasoned that Section 126 taxes income in respect of a decedent to the recipient, not a distributee. For the 1944 proceeds, the estate was the recipient, and the court cited *Estate of Ralph R. Huesman, 16 T.C. 656*, stating that Section 126 income is not "income of the estate" but rather corpus. Regarding the 1945 proceeds, the court found that the cooperative marketing agreements didn't constitute a sale of grapes by the decedent to the associations. Instead, the court characterized the relationship as a trust, citing *California & Hawaiian Sugar Refining Corp. Ltd. v. Commissioner, 163 F.2d 531*, and emphasized that the liquidation and sales occurred after the decedent's death, meaning no right to income arose during his lifetime. Therefore, the 1945 proceeds were not Section 126 income. The court determined that the petitioner's interests in the wine pools were capital assets, and gains from the liquidation were taxable as capital gains. Gains from pools liquidated in 1945 were long-term, while a gain from a 1938 pool liquidated in 1944 was short-term due to lack of evidence about the liquidation date. The court referenced Section 117 of the Code to support its capital gains analysis.

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Practical Implications

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Linde clarifies the application of Section 126 regarding income in respect of a decedent, particularly in situations involving cooperative marketing associations. It emphasizes that for Section 126 to apply, the right to income must arise during the decedent's lifetime. This case is crucial for tax practitioners dealing with estates and beneficiaries receiving income from post-death activities related to the decedent's assets. It provides a framework for analyzing whether proceeds are truly