Industrial Equipment Co. v. Commissioner, 25 T.C. 1032 (1956)

A taxpayer can report income from a portion of their business on the installment basis if sales for that specific part of the business are regularly made on the installment plan, even if other parts of the business operate differently.

Summary

Industrial Equipment Co. sought to report income from the sale of dehydration equipment on the installment basis. The IRS denied this, arguing the company wasn't 'regularly' engaged in installment sales. The Tax Court reversed, holding that 'regularly' is a question of fact, and considering the frequency, number, and public holding out of installment sales, the company qualified. The court emphasized that the high value of individual sales impacted the analysis, distinguishing it from businesses with many smaller transactions. The key was that the company made a practice of offering credit for its dehydration equipment.

Facts

Industrial Equipment Co. manufactured foundry and dehydration equipment. It never sold foundry equipment on credit. Beginning in 1937, it sold dehydration equipment on a credit basis, retaining title until full payment. During the taxable year in question, about 8% of its gross sales were from credit sales of dehydration equipment. The selling price of the dehydration equipment sold during the year in question was about $49,000, with a profit of approximately $10,000. The company held itself out as willing to sell dehydration equipment on credit and it was generally known in the trade.

Procedural History

The Commissioner of Internal Revenue determined that Industrial Equipment Company was not entitled to report the sale of dehydration equipment on the installment basis. Industrial Equipment Co. petitioned the Tax Court for review. The Tax Court reversed the Commissioner's determination.

Issue(s)

Whether Industrial Equipment Co. was 'regularly' engaged in the sale of personalty on the installment plan, thus entitling it to use the installment basis method of reporting income for its dehydration equipment sales.

Holding

Yes, because considering the high value of the equipment sold, the company's willingness to sell on credit, and the knowledge of this practice in the industry, Industrial Equipment Co. 'regularly' sold dehydration equipment on the installment plan.

Court’s Reasoning

The court relied on Section 44(a) of the Internal Revenue Code, which allows those who “regularly” sell personalty on the installment plan to report income on that basis. The court acknowledged that whether a business ‘regularly’ engages in installment sales is a question of fact. Factors considered include the frequency and number of installment sales, and whether the business holds itself out as making such sales. Citing *Marshall Brothers Lumber Co., 13 B.T.A. 1111 (1928)*, the court stated, “The question is, did the petitioner “regularly” sell on the installment plan basis? The fact that it also sold on the cash basis is only one element to be considered along with other circumstances.” The court emphasized that the high price of the dehydration equipment distinguished this case from those involving smaller, more frequent sales. It was also significant that competitors sold dehydration equipment on credit, and the petitioner also began to sell on credit and held itself out as willing to do so. The court found that the company’s books and records adequately allowed for the computation of income from installment sales, even if sales had been previously reported on the accrual basis. The court found that the prior reporting method did not preclude the company from electing the installment method in the present tax year.

Practical Implications

This case clarifies that ‘regularly’ in the context of installment sales doesn’t necessarily mean a high volume of sales. Instead, it focuses on whether the business makes a practice of offering installment plans, especially for high-value items. Legal practitioners should analyze the specific facts, including the type of product sold, the business’s practices, and industry standards. This ruling allows businesses selling expensive equipment to utilize the installment method even if cash sales are more frequent. This can improve cash flow and reduce the tax burden in the year of the sale. Later cases would likely distinguish this case based on factual differences, such as a failure to demonstrate a willingness to sell on credit, or sales that are more akin to isolated transactions.

