20 T.C. 68 (1953)

The sale of a partnership interest is generally treated as the sale of a capital asset, resulting in capital gain or loss, regardless of whether the state has adopted the Uniform Partnership Act.

Summary

Pursglove was a partner in Cornell Coke Company. The partnership sold coal lands it held for less than 6 months. Pursglove argued the gain was a long-term capital gain because the partnership essentially sold a lease and option it held for over 6 months. He also claimed that his loss from selling his partnership interest should not be treated as a capital loss because West Virginia hadn't adopted the Uniform Partnership Act. The Tax Court held that the sale of coal lands resulted in short-term capital gain because the partnership owned the lands at the time of sale, and the sale of his partnership interest resulted in a long-term capital loss. This case clarifies how gains from selling assets owned briefly by a partnership are treated versus the sale of the partnership interest itself. It also addresses the tax implications of partnership interest sales in states without the Uniform Partnership Act.

Facts

Joseph Pursglove, Jr. was a partner in Cornell Coke Company. The partnership leased coal lands and obtained an option to purchase them. The partnership then located nearby coke ovens owned by Donald McCormick as nominee of the Central Iron & Steel Company. The partnership entered into an agreement with McCormick dated April 6, 1942, in which McCormick leased to the partnership real estate, plant and equipment, including approximately 2,060 acres of the Upper Freeport vein of coal, approximately 310 acres of surface land, about 200 coke ovens, a coal tipple and bins, shaft opening with head frame and bin, equipped with electrical hoist, self-dumping cages, weight pan, picking tables and all of the machinery and equipment in and about the mine. Steel companies had been looking for coal with metallurgical qualities in the area for some time. The partnership, on August 27, 1943, made a written offer to sell the coal to National Steel Company. National accepted the offer on February 4, 1944. McCormick conveyed the property to the Cornell Coke Company partners. The partnership then conveyed only the coal lands to National Steel Company. Pursglove later sold his partnership interest.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Pursglove's income tax for 1944. The Commissioner treated the partnership's gain from the sale of coal lands as a short-term capital gain and Pursglove's loss from the sale of his partnership interest as a long-term capital loss. Pursglove petitioned the Tax Court, arguing for different treatment of both transactions.

© 2025 SCOTUSreports.com. All rights reserved.

Issue(s)

1. Whether the partnership's gain from the sale of coal lands was taxable as a short-term capital gain or a long-term capital gain under Section 117(j) of the Internal Revenue Code.

2. Whether Pursglove's loss from the sale of his partnership interest should be treated as a capital loss, given that West Virginia has not adopted the Uniform Partnership Act.

Holding

1. No, because the partnership owned the coal lands for less than six months before selling them to National Steel Company.

2. Yes, because the sale of a partnership interest is generally treated as the sale of a capital asset, even in states that haven't adopted the Uniform Partnership Act.

Court's Reasoning

Regarding the sale of coal lands, the court rejected Pursglove's argument that the partnership merely sold a portion of its lease to National Steel. The court emphasized that the partnership purchased the coal lands from McCormick, then sold the coal lands to National Steel. The court stated, "National acquired its title to the coal lands not by a resulting trust, but solely under the contract with and the deed from the partnership for a consideration of $240,535." The short-term nature of the ownership dictated short-term capital gain treatment.

Regarding the sale of the partnership interest, the court acknowledged Pursglove's argument that West Virginia's lack of the Uniform Partnership Act distinguished his situation. However, the court reasoned that Congress intended to tax all sales of partnership interests in a similar fashion, regardless of the state in which they were made. Citing Lehman v. Commissioner, the court rejected the strict common-law view of a partnership as mere joint ownership, noting that equity and bankruptcy law had long modified those rights. The court concluded that "Congress must have intended to tax all sales of partnership interests in a similar fashion regardless of the state in which they were made."

Practical Implications

This case reinforces the principle that the sale of a partnership interest is generally a capital transaction, resulting in capital gain or loss. The decision clarifies that the lack of the Uniform Partnership Act in a particular state does not alter this fundamental tax treatment. When analyzing partnership transactions, it is critical to distinguish between sales of specific partnership assets and sales of the partnership interest itself, as the tax consequences can differ significantly. The case underscores the importance of understanding the holding period of assets sold by a partnership

© 2025 SCOTUSreports.com. All rights reserved.

in determining the nature of the capital gain (short-term or long-term). This case is also important for determining the tax consequences of selling partnership interests, especially when operating in a state that has not enacted the Uniform Partnership Act.

© 2025 SCOTUSreports.com. All rights reserved.