Lake Eloise Groves v. Commissioner, 21 T.C. 116 (1953)

Section 24(b) of the Internal Revenue Code does not disallow losses on sales between a corporation and a valid trust, as it specifically addresses sales between individuals and corporations, and Congress would have expressly included trusts if that was the intent.

Summary

Lake Eloise Groves sold its assets to the Snively Trust and sought to deduct a loss from the sale. The Commissioner argued the loss should be disallowed under Section 24(b) of the Internal Revenue Code, contending the sale was effectively between a corporation and the individual who indirectly owned more than 50% of the corporation's stock, or alternatively, between members of a family. The Tax Court held that the sale was between a corporation and a valid trust, not an individual, and the loss should be allowed because Section 24(b) did not explicitly disallow losses in sales involving trusts unless specifically stated.

Facts

- Lake Eloise Groves was an association taxable as a corporation.
- John Snively created the Snively Trust in 1941 for the benefit of his children and grandchildren, granting himself the power to operate grove property and distribute profits.
- Lake Eloise sold its assets to the Snively Trust.
- John Snively held 94% of Lake Eloise's stock.

Procedural History

- The Commissioner determined deficiencies in Lake Eloise's excess profits taxes, declared value excess-profits taxes, and income taxes, plus a penalty for failure to file an excess profits tax return.
- Lake Eloise challenged the disallowance of the loss deduction in the Tax Court.

Issue(s)

1. Whether the sale of assets from Lake Eloise to the Snively Trust should be disallowed under Section 24(b)(1)(B) of the Internal Revenue Code as a sale between a corporation and an individual owning more than 50% of the corporation's stock.
2. Whether the sale should be disallowed under Section 24(b)(1)(A) of the Internal Revenue Code as a sale between members of a family.

Holding

1. No, because the sale was between a corporation and a valid trust, and Section 24(b)(1)(B) only applies to sales between a corporation and an individual.

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2. No, because the sale was made by a corporation, not an individual, and Section 24(b)(1)(A) applies to transactions between members of a family.

Court’s Reasoning

The Tax Court reasoned that Lake Eloise was an association taxable as a corporation and should be treated as such under the Internal Revenue Code. The court determined that the Snively Trust was a valid trust under Florida law, not a

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