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

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Section 24(b) of the Internal Revenue Code disallows losses from sales or exchanges of property between certain related parties, but this disallowance does not automatically extend to sales between a corporation and a valid trust, unless Congress has specifically provided otherwise.

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Summary

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Lake Eloise Groves, a corporation, sold assets to the Snively Trust, established for the benefit of the family of Lake Eloise's majority shareholder. The Commissioner argued that the loss from the sale should be disallowed under Section 24(b) of the Internal Revenue Code, claiming the sale was indirectly between an individual and a corporation controlled by that individual or between family members. The Tax Court held that the sale was between a corporation and a valid trust, and because Section 24(b) does not explicitly disallow losses from such transactions, the loss was deductible. The court emphasized that when Congress intended to disallow losses involving trusts, it did so explicitly.

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Facts

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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, maintain records, and distribute profits. Snively owned 94% of Lake Eloise's stock. In 1944, Lake Eloise sold certain assets to the Snively Trust. Lake Eloise claimed a loss on this sale. The Commissioner disallowed the loss, arguing it fell under the restrictions of Section 24(b) of the Internal Revenue Code. Snively reported the trust income on partnership information returns, identifying himself as the trustee.

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Procedural History

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The Commissioner determined deficiencies in Lake Eloise's excess profits taxes, declared value excess-profits taxes, and income taxes, along with a penalty for failure to file an excess profits tax return. Lake Eloise challenged the deficiency determination in the Tax Court. The petitioner here is a transferee of the assets of Lake Eloise, assessed the deficiency as a transferee.

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Issue(s)

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1. Whether the loss from the sale of assets by Lake Eloise to the Snively Trust should be disallowed under Section 24(b)(1)(B) of the Internal Revenue Code as a sale between an individual and a corporation controlled by that individual.

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2. Whether the loss should be disallowed under Section 24(b)(1)(A) as a sale between members of a family.

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3. Whether Lake Eloise overpaid taxes for 1942 and 1943 and if the court has jurisdiction to determine such overpayments.

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Holding

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1. No, because the sale was between a corporation and a valid trust, not between a corporation and an individual as contemplated by Section 24(b)(1)(B).

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2. No, because Section 24(b)(1)(A) applies to transactions between natural persons and not between a corporation (Lake Eloise) and the Snively trust.

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3. The Tax Court did not decide whether overpayments exist, because they lack jurisdiction in a transferee proceeding to determine who is entitled to any

overpayment of tax made by the transferor.

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Court's Reasoning

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The court reasoned that Lake Eloise was an association taxable as a corporation and should be treated as such under the Internal Revenue Code, citing *Pierce Oil Corporation, 32 B.T.A. 403 (1935)*. The court found that the Snively Trust was a valid trust, not a