20 T.C. 346 (1953)

r
r

The election to report income on the installment basis for the sale of partnership assets must be made at the partnership level, and individual partners cannot make separate elections regarding their distributive share of the gain.

r
r

Summary

r

The case addresses whether an individual partner can elect to report their share of capital gains from a partnership's sale of assets on the installment basis when the partnership itself reported the gain as a completed transaction. The Tax Court held that the election must be made by the partnership, not the individual partner, emphasizing that the partnership's accounting methods are generally conclusive on the partners. This decision highlights the partnership as a key entity in determining how income is reported, even when capital gains are involved.

r
r

Facts

r

The S & B Manufacturing Company, a partnership consisting of John G. Scherf, Jr. (the petitioner), Paul W. Scherf, and J.G. Scherf, Sr., sold its business assets (machinery, equipment, and goodwill) in April 1947 for $151,115.08. The payment terms included a cash down payment and installments due in subsequent years. On its partnership return for the fiscal year ending September 30, 1947, the partnership reported the capital gain from the sale as a completed transaction and did not elect to use the installment method. John G. Scherf, Jr., attempted to report his share of the gain on the installment basis on his individual income tax return.

r
r

Procedural History

r

© 2025 SCOTUSreports.com. All rights reserved.

The Commissioner of Internal Revenue determined a deficiency in Scherf's income tax, asserting that his full distributive share of the gain, as reported on the partnership return, must be included in his 1947 income. Scherf petitioned the Tax Court, arguing he should be allowed to use the installment method despite the partnership's election.

r
r

Issue(s)

r

Whether an individual partner can elect to report their distributive share of capital gains from the sale of partnership assets on the installment basis when the partnership reported the entire gain as a completed transaction.

r
r

Holding

r

No, because the election to use the installment method must be made at the partnership level, and the partnership's choice is binding on the individual partners.

r
r

Court's Reasoning

r

The Tax Court emphasized that while a partnership isn't a taxpaying entity, it's a

© 2025 SCOTUSreports.com. All rights reserved.