Williams v. Commissioner, 27 T.C. 1002 (1957)

Gains from the sale of a growing crop of citrus fruit along with the land may be reported on the installment basis under Section 44 of the Internal Revenue Code.

Summary

The Tax Court addressed whether gains from the sale of citrus groves with unmatured fruit could be reported on the installment basis under Section 44 of the Internal Revenue Code. The court ruled that while the portion of the gain attributable to the unmatured fruit was ordinary income, it could be reported on the installment basis because the sale qualified as either a casual sale of personal property not includible in inventory or as a sale of real property, depending on whether the growing crop was considered personalty or realty.

Facts

Several petitioners sold their citrus groves with immature fruit on the trees. The fruit was not yet ready for harvest at the time of sale. The petitioners sought to report the gains from the sale on the installment basis, as permitted by Section 44 of the Internal Revenue Code.

Procedural History

The Commissioner of Internal Revenue argued that the gain from the sale of the fruit was ordinary income and could not be reported on the installment basis. The Tax Court reviewed the Commissioner's determination.

Issue(s)

1. Whether the gain from the sale of immature fruit on citrus trees qualifies for installment sale treatment under Section 44 of the Internal Revenue Code.

Holding

1. Yes, because the sale qualifies under Section 44, regardless of whether the growing crop is considered personal property or real property.

Court's Reasoning

The court addressed the installment sale issue under Section 44 of the Internal Revenue Code. The court determined that if the fruit was considered personal property, the sale was a casual sale, not a sale in the ordinary course of business. It also noted that a growing crop would not be includible in inventory. Alternatively, if the growing crop was real property, Section 44(b) placed no conditions on the right to report the gain on the installment basis, provided that the payments met certain requirements, which they did in this case. The court cited Section 44(b) which

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states, “In the case (1) of a casual sale or other casual disposition of personal property (other than property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the, taxable year), for a price exceeding $1,000, or (2) of a sale or other disposition of real property…the income may…be returned on the [installment] basis.” The court relied on the statute’s plain language to support its conclusion.

Practical Implications

This case clarifies the application of installment sale rules to the sale of agricultural property, specifically citrus groves. Attorneys and tax advisors can rely on this case when structuring the sale of farms or orchards to allow sellers to defer tax liability through installment reporting, as long as the initial payments do not exceed 30% of the selling price. It also illustrates the importance of considering whether a growing crop is considered personalty or realty, though in this case, that distinction did not change the outcome. The holding underscores the broad applicability of Section 44 to sales of real property. Later cases involving similar sales of agricultural property would need to consider the principles established in *Williams* to determine if installment sale treatment is appropriate.

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