Marshall C. Allaben, 35 B.T.A. 327 (1937)

A lump-sum purchase price for property sold under threat of condemnation cannot be rationalized after the sale as representing a combination of separately statable factors.

Summary

The taxpayer, Allaben, sold a portion of his land to the State of Connecticut under threat of condemnation. The sales agreement stipulated a lump-sum price without apportioning the proceeds between land value and consequential or severance damages. Allaben then attempted to apportion the proceeds for tax purposes, claiming part of the proceeds were for severance damages and therefore not taxable as income. The Board of Tax Appeals held that the lump-sum payment could not be retroactively apportioned to reduce the recognized gain. The entire gain was taxable because the agreement did not specify separate consideration for the land and any consequential damages.

Facts

1. Allaben owned a parcel of land in Connecticut.
2. The State of Connecticut threatened to condemn a portion of Allaben’s land for public use.
3. Allaben sold the land to the state for a lump-sum payment.
4. The sales agreement did not allocate any portion of the proceeds to severance damages or any factor other than the land itself.
5. After the sale, Allaben attempted to apportion the proceeds between the value of the land taken and consequential damages to the remaining property.

Procedural History

1. The Commissioner of Internal Revenue assessed a deficiency against Allaben, arguing the full sale proceeds were taxable gain.
2. Allaben appealed to the Board of Tax Appeals, seeking to reduce the taxable gain by allocating a portion of the proceeds to severance damages.

Issue(s)

Whether a taxpayer can retroactively apportion a lump-sum payment received from the sale of property under threat of condemnation between the value of the land and consequential damages, when the sales agreement does not specify such an allocation.

Holding

No, because a lump-sum purchase price is not to be rationalized after the event of sale as representing a combination of factors which might have been separately stated in the contract if the parties had been fit to do so.

Court's Reasoning

The Board of Tax Appeals reasoned that the sales agreement controlled the tax treatment of the proceeds. Since the agreement stipulated a lump-sum payment without specifying any allocation to severance damages, the entire amount was considered payment for the land. The Board stated, "a lump sum purchase price is not to be rationalized after the event of sale as representing a combination of factors which might have been separately stated in the contract if the parties had been fit to do so." The court emphasized that taxpayers cannot retroactively rewrite agreements to minimize their tax liability. The Board distinguished cases where the sales agreement explicitly allocated proceeds to specific items, such as severance damages.

Practical Implications

This case highlights the importance of clearly defining the allocation of proceeds in sales agreements, particularly in situations involving condemnation or threat thereof. Taxpayers seeking to treat a portion of the proceeds as something other than payment for the property (e.g., severance damages) must ensure the agreement explicitly reflects this allocation. Otherwise, the entire lump-sum payment will be treated as consideration for the property, resulting in a fully taxable gain. Later cases, such as *Lapham v. United States*, 178 F.2d 994 (2d Cir. 1950), have affirmed this principle, emphasizing that the form of the transaction dictates its tax consequences. Legal practitioners must advise clients to negotiate specific allocations in the sales agreement to achieve desired tax outcomes. This case also prevents taxpayers from engaging in post-transaction rationalization to reduce their tax burden based on hypothetical allocations that were not part of the original agreement.