20 T.C. 649 (1953)

When proceeds from an involuntary conversion are not fully reinvested in similar property, the realized gain is recognized for tax purposes to the extent of the uninvested proceeds, and a taxpayer cannot retroactively allocate a lump-sum sales price to artificially create a partial reinvestment scenario.

Summary

O.N. Bymaster sold his farm under threat of condemnation and sought to defer the capital gain by reinvesting a portion of the proceeds in a new residence. He argued that the sale should be treated as two separate transactions: one for the residential portion and another for the farmland. The Tax Court rejected this argument, holding that because Bymaster received a lump-sum payment and did not reinvest the entire amount in similar property, the entire gain was taxable to the extent of the proceeds not reinvested. The court emphasized that a taxpayer cannot retroactively allocate a sales price to minimize tax liability when the original transaction involved a single, undivided sale.

Facts

Bymaster owned a 50.2-acre farm in Norman, Oklahoma, including a residence and various farm buildings on approximately 8 acres (the “north end”) and farmland (the “south 42 acres”). He leased the farmland for crop production. Under threat of condemnation, Bymaster sold the entire property to the University of Oklahoma for $75,000 in a single transaction. The sales contract did not allocate the purchase price between the residential and farmland portions. Bymaster used $18,017.70 of the proceeds to purchase a new residence in California and invested the remaining proceeds in government bonds.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Bymaster’s 1946 income tax, arguing that the entire capital gain from the sale should be recognized because the full proceeds were not reinvested in similar property. Bymaster petitioned the Tax Court, arguing that the sale should be bifurcated, with only a portion of the gain recognized.

Issue(s)

Whether Bymaster could treat the sale of his farm as two separate transactions (residential and farmland) and allocate the lump-sum sales price accordingly to minimize the recognized capital gain under Section 112(f) of the Internal Revenue Code.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

No, because Bymaster sold the property in a single transaction for a lump sum, and the proceeds not expended in acquiring similar property exceeded the gain realized, the entire amount of the long-term capital gain must be recognized for taxation.

Court's Reasoning

The Tax Court rejected Bymaster's attempt to retroactively allocate the sales price. The court reasoned that the sale was a single transaction for a lump sum, and neither the sales agreement nor the deed of conveyance contained any allocation between the residential and farmland portions. The court relied on prior precedent, such as *Marshall C. Allaben, 35 B.T.A. 327*, which held that "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." Because Bymaster did not reinvest all of the proceeds into similar property, Section 112(f) required the recognition of the gain to the extent of the proceeds not reinvested. The court found no basis in fact or law for Bymaster's apportionment theory.

Practical Implications

The *Bymaster* case reinforces the principle that taxpayers must structure transactions carefully to achieve desired tax consequences. It clarifies that a lump-sum sale will be treated as such, and taxpayers cannot retroactively allocate the sales price to minimize tax liability. This case emphasizes the importance of clearly delineating the components of a sale in the contract itself if different tax treatments are desired. It affects how involuntary conversion proceeds must be handled to qualify for non-recognition of gain. Later cases have cited *Bymaster* for the proposition that courts will generally respect the form of the transaction as structured by the parties, absent evidence of fraud or sham.

© 2025 SCOTUSreports.com. All rights reserved.