22 T.C. 954 (1954)

The gain from the sale of real estate is taxed as ordinary income if the property was held primarily for sale to customers in the ordinary course of the taxpayer's business.

Summary

The U.S. Tax Court determined whether the profits from Louisiana Western Lumber Company's real estate sales were taxable as ordinary income or capital gains. The company, primarily in the lumber and building materials business, acquired land, subdivided it into lots, and sold them. The court found the company's sales were continuous, substantial, and integrated with its core business, thus the lots were held primarily for sale to customers in the ordinary course of business. Therefore, the profits were taxed as ordinary income. The court considered factors like the purpose of acquisition, sales continuity, sales activities, and integration with the primary business.

Facts

Louisiana Western Lumber Co. (Petitioner) was primarily in the retail lumber and building material business. To secure an outlet for its products, the company acquired land in 1940, subdividing and improving it into lots. In 1941, the petitioner transferred 120 lots to a subsidiary for constructing rental houses, integrating its lumber sales. The petitioner made significant lot sales annually from 1947 to 1950. The company's sales tied the sale of lots with agreements to purchase building materials. Sales were handled by company employees under the supervision of its treasurer. The company also acquired lots in other subdivisions.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioner's income taxes for the years 1947-1950, reclassifying gains from land sales as ordinary income instead of capital gains. The petitioner contested the reclassification in the U.S. Tax Court.

Issue(s)

1. Whether the profits from the sale of real estate were taxable as ordinary income or as capital gains.

Holding

1. Yes, because the lots sold were held primarily for sale to customers in the ordinary course of petitioner's business.

Court's Reasoning

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The court examined whether the lots were

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