29 T.C. 931 (1958)

When a partnership agreement does not specify a retroactive effective date for the sale of a partnership interest, the income earned before the sale is considered partnership income and distributable to the partners, even if the agreement is signed after the income is earned.

Summary

In 1951, William and Harry Goldstein, brothers, were equal partners in L. Goldstein's Sons, a scrap metal business. The partnership used a calendar year for tax reporting. On April 21, 1951, William purchased Harry's partnership interest. The IRS determined that the partnership income from January 1 to April 21, 1951, was distributable income to the partners (50% each), and should be accounted for as such to calculate Harry's gain from the sale of his partnership interest. The Tax Court agreed, holding that the partnership income was earned and should be treated as such, and the agreement did not specify it as retroactive to January 1. The sale was effective on the date it was executed.

Facts

William and Harry Goldstein, equal partners in L. Goldstein's Sons, operated a scrap metal business. They used the calendar year for income reporting. The partnership agreement originally included a third brother, Charles S. Goldstein, who died in 1949. After Charles's death, William and Harry each gave notices of dissolution to the other but no steps were taken to dissolve the partnership. Negotiations occurred regarding the future of the business. On April 21, 1951, an agreement was executed where William purchased Harry's partnership interest for $125,000. The agreement specified the cessation of the partnership as of that date. Harry and William each received payments of $250/week during the period in question. William also received a mortgage and assumed all claims against the partnership.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in income tax against both the Estate of William Goldstein and the Estate of Harry S. Goldstein. The Tax Court consolidated the cases. The main issue was how to classify the income of L. Goldstein's Sons from January 1 to April 21, 1951.

Issue(s)

1. Whether the income of L. Goldstein's Sons for the period January 1 through April 21, 1951, was partnership income, distributable 50 percent to Harry Goldstein and 50 percent to William Goldstein.

Holding

1. Yes, because the partnership agreement and the sale agreement did not specify that the sale and the transfer of ownership were retroactive.

Court's Reasoning

The court focused on the plain language of the sale agreement. The agreement of April 21, 1951, did not contain language to indicate that it was to relate back to any date prior. The language in the agreement clearly indicated the business was in effect and in operation until the very day the sale closed. The agreement used language that the business was operating

