29 T.C. 1091 (1958)

Under the Internal Revenue Code of 1939, the sale of breeding cattle qualified for capital gains treatment only if the cattle were held for 12 months or more from the date of acquisition, and reasonable cause does not excuse a penalty for underestimation of tax.

Summary

The McMurtrys purchased breeding cattle and sold some of them within 12 months of acquisition. They sought capital gains treatment for these sales under Section 117(j) of the Internal Revenue Code of 1939. The court held that, due to the 1951 amendment to the Code, a 12-month holding period was required for breeding cattle to qualify for capital gains treatment. Since the McMurtrys did not meet this requirement, their gains were not considered capital gains. Additionally, the court determined that the McMurtrys were liable for a penalty for substantial underestimation of their tax liability, finding that reasonable cause does not provide a defense to this penalty.

Facts

The petitioners, R. L. McMurtry and Mary P. McMurtry, filed a joint income tax return for 1951. During late 1950 and early 1951, they purchased a number of cows and bulls for breeding purposes. The cattle were purchased at various times between November 19, 1950 and March 11, 1951. In September 1951, the McMurtrys sold 336 of the cows and 15 bulls. In November 1951, they sold 91 additional cows. The McMurtrys held the livestock for breeding purposes from the date of acquisition until the dates of sale.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the McMurtrys' income tax for 1951 and assessed an addition to tax for substantial underestimation of tax. The McMurtrys contested these determinations in the United States Tax Court.

Issue(s)

1. Whether gains from the sale of breeding cattle, held for over six months but less than 12 months, qualify for long-term capital gains treatment under Section 117(j) of the Internal Revenue Code of 1939.

2. Whether the petitioners are liable for an addition to tax for a substantial underestimation of tax under Section 294(d)(2) of the Internal Revenue Code of 1939.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because the 1951 amendment to Section 117(j) established a 12-month holding period for breeding cattle to qualify for capital gains treatment, and the cattle in question were not held for this duration.

2. Yes, because reasonable cause is not a defense to the addition to tax for substantial underestimation of tax under Section 294(d)(2).

Court's Reasoning

The court focused on the 1951 amendment to Section 117(j) of the Internal Revenue Code of 1939. This amendment specifically stated that livestock used for breeding purposes must be held for 12 months or more to be considered "property used in the trade or business" for the purposes of capital gains treatment. The court examined the plain language of the amendment and found that it clearly established a 12-month holding period. Furthermore, the court cited legislative history, including statements from Representative Robert L. Doughton and the Senate Finance Committee report, to support the interpretation that Congress intended to codify the 12-month rule for breeding livestock. Because the McMurtrys had not held the cattle for the required 12 months, their gains were not eligible for capital gains treatment.

The court also determined that the petitioners were liable for the addition to tax due to underestimation of tax. The court cited established case law which held that "reasonable cause is not a defense" to such a penalty.

Practical Implications

This case underscores the importance of carefully adhering to the holding period requirements for capital gains treatment on the sale of breeding livestock under the tax laws in force at the time, and, importantly, under any subsequent analogous provisions. Taxpayers and their advisors must be aware of specific holding period rules that apply to various types of assets. Additionally, the case illustrates that a good-faith belief that the tax law applies in a certain manner does not relieve a taxpayer from penalties for underpayment if the interpretation is ultimately found to be incorrect. This case remains relevant for interpreting similar holding period requirements in current tax law.

© 2025 SCOTUSreports.com. All rights reserved.