T.C. Memo. 1962-4

Gains from the sale of breeding cattle qualify for long-term capital gains treatment only if the cattle have been held for 12 months or more, as mandated by the 1951 amendment to Section 117(j) of the Internal Revenue Code of 1939.

Summary

The McMurtrys sold breeding cattle they held for more than six months but less than twelve months and claimed capital gains treatment. The Tax Court ruled against them, holding that the 1951 amendment to Section 117(j) of the 1939 IRC explicitly requires a 12-month holding period for livestock to qualify as "property used in the trade or business" and thus receive capital gains treatment. The court rejected the petitioners' argument that the amendment only applied to livestock held longer than 12 months but used for breeding for less than 6 months, emphasizing the plain language and legislative history of the amendment, which clearly established a uniform 12-month holding period for all livestock used for breeding, draft, or dairy purposes.

Facts

Petitioners, R.L. and Mary P. McMurtry, purchased breeding cows and bulls between November 19, 1950, and March 11, 1951. In September and November 1951, they sold some of these cows and bulls. During the period from acquisition to sale, the petitioners held the livestock for breeding purposes. The holding period for the sold livestock was more than six months but less than twelve months.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the petitioners' income tax for 1951. Petitioners contested this determination in the Tax Court.

Issue(s)

1. Whether gains from the sale of breeding cattle held for more than 6 months but less than 12 months qualify for long-term capital gains treatment under Section 117(j) of the Internal Revenue Code of 1939, as amended by the Revenue Act of 1951.

Holding

1. No, because the 1951 amendment to Section 117(j) of the Internal Revenue Code of 1939 explicitly requires livestock held for breeding purposes to be held for 12 months or more to qualify as "property used in the trade or business" for capital gains treatment.

Court's Reasoning

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The court reasoned that the plain language of the 1951 amendment to Section 117(j)(1) of the Internal Revenue Code of 1939 unequivocally established a 12-month holding period for livestock used for draft, breeding, or dairy purposes to be considered "property used in the trade or business." The court examined the legislative history of the amendment, noting that Congress intended to codify prior case law, specifically *Albright v. United States* and *United States v. Bennett*, which had addressed capital gains treatment for breeding livestock. However, Congress, through the 1951 amendment, explicitly extended the holding period from six to twelve months for taxable years beginning after December 31, 1950. The court quoted Representative Doughton's statement that the amendment was intended to write into law the principle of the *Albright* case but with a 12-month holding period. The Senate's addition of "regardless of age" further clarified that the 12-month rule applied uniformly to all livestock used for breeding, draft, or dairy purposes, regardless of their age or period of usefulness. The court stated, "The amendment states one rule applicable alike to all livestock used for draft, breeding, or dairy purposes." Therefore, because the petitioners did not hold the cattle for the requisite 12 months, the gains from the sale did not qualify for capital gains treatment.

Practical Implications

McMurtry v. Commissioner provides a clear interpretation of the 1951 amendment to Section 117(j) of the 1939 Internal Revenue Code, firmly establishing the 12-month holding period requirement for livestock to qualify for capital gains treatment. This decision is crucial for tax planning in agricultural businesses, particularly those involving breeding livestock. Legal professionals and taxpayers must recognize that for sales of livestock used for draft, breeding, or dairy purposes in taxable years beginning after December 31, 1950, the livestock must be held for at least 12 months to be considered "property used in the trade or business" and eligible for capital gains treatment. This case eliminated any ambiguity regarding the holding period and reinforced the statutory requirement, impacting how livestock sales are treated for tax purposes and guiding future tax decisions and compliance in the agricultural sector.

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