Griffin v. Commissioner, 33 T.C. 616 (1959)

Whether a taxpayer's gain from selling an asset is taxed as ordinary income or capital gain depends on whether the asset was held primarily for sale to customers in the ordinary course of the taxpayer's trade or business.

Summary

The U.S. Tax Court considered whether a motion picture producer's profit from selling a story was taxable as ordinary income or capital gain. The petitioner, Z. Wayne Griffin, had a history of acquiring stories, selling them to studios, and then being hired to produce the films. The court determined that Griffin was in the trade or business of being a motion picture producer and that the sale of the story was to a customer in the ordinary course of this business. Therefore, the gain was taxed as ordinary income, not capital gain.

Facts

Z. Wayne Griffin, the petitioner, was a motion picture producer. He would purchase stories, sometimes with a co-owner, with the intention of forming a corporation to produce them, and then sell them to major studios, concurrently securing a contract to produce the film. He had previously completed two similar transactions. Griffin never produced a story he did not first sell. In 1951, he sold the story "Lone Star" to MGM. He also had a history of working in radio and television production and management before becoming an independent motion picture producer.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the petitioner's 1951 income tax, arguing that the gain from the sale of the story "Lone Star" was taxable as ordinary income. The petitioner challenged this determination in the U.S. Tax Court.

Issue(s)

Whether the profit realized by the petitioner from the sale of the story "Lone Star" constituted ordinary income or capital gain?

Holding

Yes, because the court found that the sale of the story was in the ordinary course of the petitioner's trade or business as a motion picture producer.

Court's Reasoning

The court focused on whether the petitioner was engaged in a trade or business and whether the story was held primarily for sale to customers in the ordinary course of

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that business. The court found that Griffin was in the trade or business of being a motion picture producer. The court noted that a taxpayer could have more than one trade or business, and that the activity need not be full-time. The court distinguished this case from situations where a taxpayer sells assets outside the regular course of their business. The court emphasized that Griffin never produced a story he did not first sell and that the sale was integral to his work as a producer, and it was a customer in the ordinary course of his business. The court also distinguished this from cases where occasional sales of stories were incidental to other professions such as acting or directing.

Practical Implications

This case underscores the importance of determining a taxpayer's trade or business and how the sale of assets fits within that business for tax purposes. It's a critical test in distinguishing between ordinary income and capital gains, and is still relevant. The case highlights that if a taxpayer regularly sells assets in conjunction with their primary business, the gain from those sales is typically treated as ordinary income. Furthermore, this case would inform legal professionals who are advising clients in the entertainment industry, especially those with similar practices in story acquisition, development, and production.

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