34 T.C. 447 (1960)

A corporation selling assets during liquidation must recognize income from accrued interest, even if the interest is not yet due, and a request for prompt assessment must strictly comply with regulatory requirements.

Summary

Central Building and Loan Association (CBLA) sold its assets as part of a complete liquidation. The IRS determined a deficiency, arguing CBLA should have recognized income from accrued but uncollected interest on outstanding loans. The Tax Court agreed, stating that the sale of the assets included the actual collection of interest, thus taxable even though it was not yet due. CBLA also argued that the assessment was time-barred because it had requested a prompt assessment, but the court found that CBLA failed to comply with the specific regulatory requirements for making such a request. The court held that since CBLA did not follow the proper procedure, the statute of limitations was not triggered and the IRS assessment was valid.

Facts

CBLA, a savings and loan corporation, adopted a plan of complete liquidation on January 17, 1956, and dissolved on June 28, 1956. On March 30, 1956, CBLA sold its assets to Guaranty Building and Loan Association. Included in the sale were note obligations with accrued interest of $30,138.03 that was not yet due. CBLA filed an income tax return for the period ending March 31, 1956, and an amended final return for the period ending June 30, 1956. CBLA included the accrued interest in the amount shown as non-taxable gain from the sale. CBLA sent two letters to the IRS, which it contended were requests for early assessment under I.R.C. § 6501(d). The IRS determined a deficiency based on the inclusion of the accrued interest in taxable income.

Procedural History

The IRS determined a tax deficiency against CBLA for the taxable year ended June 30, 1956. CBLA petitioned the United States Tax Court to challenge the IRS’s determination. The Tax Court heard the case based on stipulated facts and documentary evidence, with the core issue focusing on the tax treatment of the accrued interest and the validity of CBLA’s request for early assessment under the statute of limitations.

Issue(s)

1. Whether the IRS correctly determined that the accrued interest, though not yet due, was taxable income to CBLA upon the sale of its assets during liquidation.

2. Whether CBLA properly requested a prompt assessment under I.R.C. § 6501(d), thus triggering the special 18-month statute of limitations.

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Holding

1. Yes, because the sale of assets was effectively a collection of the accrued interest, making it taxable income, irrespective of whether the interest was due at the time of the sale.

2. No, because CBLA's letters to the IRS did not meet the regulatory requirements for requesting a prompt assessment under I.R.C. § 6501(d).

Court's Reasoning

The court found that the earned, but uncollected, interest was income at the date of sale. The court reasoned that although CBLA was a cash basis taxpayer, the sale of its assets to the new entity was an actual collection of the interest, not a mere sale of the right to receive future income, triggering taxable income. The court cited the principle of clear reflection of income. The court looked to the specific language of the statute, focusing on the fact that no sale or exchange of property occurred, so § 337 could not apply to exempt the interest income. Regarding the statute of limitations, the court emphasized the necessity of adhering to the regulations governing requests for prompt assessment, as they are in place to ensure proper handling by the IRS. The court determined CBLA's letters did not follow the regulations because the letters were not sent separately from the tax return, and failed to specify the type of tax and period for which early assessment was requested. As a result, the 18-month statute of limitations did not apply, and the IRS assessment was valid.

Practical Implications

This case highlights the importance of the form over substance in tax law, and emphasizes the requirements for specific statutory provisions. It reinforces the principle that a cash-basis taxpayer can trigger income recognition upon the sale of assets, even when the underlying right to the income has not yet matured. The case also serves as a warning for practitioners. When seeking special tax treatment, or attempting to trigger a special statute of limitations period, it is critical to adhere precisely to the specific requirements outlined in regulations. It reinforces the need for detailed compliance with IRS regulations when attempting to utilize the 18-month statute of limitations.

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