***Branham v. Commissioner, 51 T. C. 175, 1968 U. S. Tax Ct. LEXIS 35 (1968)***

Assignment of specific installment payments of a promissory note to secure a purchase may be considered a taxable disposition under IRC Section 453(d)(1).

**Summary**

In Branham v. Commissioner, the Tax Court determined that Joe D. Branham's assignment of specific installment payments from a promissory note to purchase stock from his daughters constituted a taxable disposition under IRC Section 453(d)(1). Branham sold his stock in Sand Springs Bottling Co. and elected to report the gain under the installment method. Later, he used three of these installments to buy stock from his daughters. The court ruled that this was a disposition of the installment obligations, requiring immediate recognition of the gain on those assigned payments, because the terms of the payments to his daughters mirrored those of the assigned installments.

**Facts**

In 1960, Joe D. Branham sold his stock in Sand Springs Bottling Co. for cash and a 10-year promissory note from Pepsi-Cola Bottling Co. He elected to report the gain under the installment method of IRC Section 453. In December 1961, Branham contracted to buy stock from his three daughters, securing these purchases with three specific installments of the Pepsi-Cola note due in 1968, 1969, and 1970. These assignments were absolute on their face and the terms of payment to his daughters matched the terms of the assigned installments. Branham directed a bank to pay these installments directly to his daughters upon collection.

**Procedural History**

Branham filed a joint income tax return for the fiscal year ended June 30, 1962, electing the installment method for reporting the gain from the Sand Springs stock sale. The IRS Commissioner determined a deficiency, asserting that Branham's assignment of the installments constituted a disposition under IRC Section 453(d)(1), necessitating immediate gain recognition. Branham petitioned the U. S. Tax Court for a redetermination of the deficiency.

**Issue(s)**

1. Whether Joe D. Branham's assignment of specific installments due under the Pepsi-Cola note to purchase stock from his daughters constituted a disposition of installment obligations under IRC Section 453(d)(1).

**Holding**

1. Yes, because the court found that Branham in substance used the installments to purchase the stock, which constituted a disposition under IRC Section 453(d)(1).

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## Court’s Reasoning

The court focused on the substance over form, concluding that Branham’s assignment of the installments was more than a mere pledge; it was an exchange for the stock. The court noted that the terms of payment to the daughters mirrored the terms of the assigned installments, and Branham directed the bank to pay the installments directly to the daughters. The court also referenced the case Robinson v. Commissioner, which supported the view that such assignments are taxable dispositions. The court rejected Branham’s argument that the assignments were mere pledges, stating that the evidence supported the IRS’s determination that the assignments were absolute dispositions.

## Practical Implications

This decision underscores the importance of understanding the tax implications of using installment obligations as payment or security for other transactions. Practitioners must be cautious when clients use installment notes to fund or secure other purchases, as such actions may be considered dispositions that trigger immediate tax liability. The ruling also highlights the need for clear documentation and understanding of the terms of any assignments or pledges. Subsequent cases have referenced Branham in discussions about the disposition of installment obligations, emphasizing its role in shaping tax law regarding the installment method of reporting.

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