***Dorothy C. Thorpe Glass Mfg. Corp. v. Commissioner, 51 T. C. 300 (1968)***

Nonrecognition of gain under IRC §1033(a) applies only to direct involuntary conversions of the taxpayer's property, not to sales compelled by economic necessity or third-party threats against related property.

**Summary**

Dorothy C. Thorpe Glass Mfg. Corp. sold property to finance a new plant for its affiliate, Thorpe, after the city threatened legal action against an adjacent building leased by Thorpe due to code violations. The court held that the gain from the sale was not nonrecognizable under IRC §1033(a) because the taxpayer had no interest in the threatened property, and the sale was not an involuntary conversion but a voluntary business decision. The decision underscores the strict application of §1033(a) to direct involuntary conversions only, not to sales prompted by economic pressures or threats against related entities.

**Facts**

Dorothy C. Thorpe Glass Mfg. Corp. (Thorpe Glass) owned property leased to its affiliate, Dorothy C. Thorpe, Inc. (Thorpe), which used it for its glassware decorating business. In 1959, Thorpe leased an adjacent building from Fortner Engineering Co. to expand operations. In 1961, the City of Glendale threatened legal action against Thorpe for building code violations in the adjacent building, specifically regarding an illegally constructed mezzanine. Faced with potential fines and jail time, Thorpe sought alternative space. Financing for a new plant was secured from the Small Business Administration (SBA), contingent on Thorpe Glass selling its property and applying the proceeds to the loan. Thorpe Glass sold its property in 1963 and did not report the gain, claiming it was nonrecognizable under IRC §1033(a).

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in Thorpe Glass's income tax for the years 1963-1965 due to the unrecognized gain from the property sale. Thorpe Glass petitioned the U. S. Tax Court, arguing for nonrecognition under §1033(a). The Tax Court ruled against Thorpe Glass, holding that the gain was taxable.

**Issue(s)**

1. Whether the sale of Thorpe Glass's property qualified for nonrecognition of gain under IRC §1033(a) due to the threat of legal action against the adjacent building leased by Thorpe?
2. Whether the conditions of the SBA loan constituted an involuntary conversion under §1033(a)?

**Holding**

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1. No, because the threat of legal action did not relate to Thorpe Glass's property, and there was no involuntary conversion within the meaning of §1033(a).
2. No, because the SBA loan conditions did not constitute an involuntary conversion but rather a voluntary business decision.

**Court's Reasoning**

The court applied §1033(a), which requires that property be involuntarily converted due to destruction, theft, seizure, requisition, condemnation, or the threat thereof. The court found that Thorpe Glass had no interest in the adjacent building targeted by the city's threats, thus no involuntary conversion of its property occurred. The court rejected the argument that Thorpe's leasehold interest in the adjacent building could be attributed to Thorpe Glass, emphasizing the separate corporate identities of the two entities. The court also clarified that "requisition or condemnation" under §1033(a) refers specifically to the exercise of eminent domain, not to legal action threatening fines or jail time. Regarding the SBA loan, the court held that the sale of Thorpe Glass's property was a voluntary business decision, not an involuntary conversion, as Thorpe Glass willingly entered into the loan agreement. The court further dismissed the argument that §21 of the Small Business Act repealed the tax code's application in this case, finding no legislative intent to exempt SBA-assisted transactions from general taxation.

**Practical Implications**

This decision limits the application of §1033(a) to direct involuntary conversions of the taxpayer's own property, excluding sales driven by economic pressures or threats against related entities or properties. Tax practitioners must carefully assess whether a sale qualifies as an involuntary conversion under the statute's strict terms. The ruling also clarifies that separate corporate entities cannot attribute the involuntary conversion of one's property to another for tax purposes, reinforcing the importance of respecting corporate separateness in tax planning. Additionally, the decision indicates that contractual conditions, even those from government agencies like the SBA, do not constitute involuntary conversions unless they directly involve the exercise of eminent domain. Subsequent cases, such as *American Natural Gas Co. v. United States*, have cited this ruling to affirm the narrow interpretation of "requisition or condemnation" under §1033(a).

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