Seyburn v. Commissioner, 51 T. C. 578 (1969)

An assignment of a partnership interest in a liquidating partnership is not effective to shift tax liability on partnership income if it lacks business purpose and is merely an anticipatory assignment of income.

Summary

In Seyburn v. Commissioner, the Tax Court ruled that George Seyburn could not avoid tax liability by assigning half of his partnership interest to charities during the partnership's liquidation. The partnership had sold its main asset, an office building, and only had an outstanding rent receivable left. Seyburn's assignment was deemed an anticipatory assignment of income, not a transfer of a partnership interest, because it lacked a business purpose and occurred after the partnership had effectively ceased operations. The court held that Seyburn was taxable on the income distributed to the charities, as the assignment did not effectively shift the tax liability.

Facts

George D. Seyburn and four others formed a partnership, National Bank Building Co. , in 1956 to operate an office building. On January 27, 1960, the partnership sold the building and distributed the proceeds. The next day, Seyburn attempted to assign half of his partnership interest to two charities. At this point, the partnership's only remaining asset was an unreceived rent payment from the building's tenant for 1959. The partnership later collected and distributed this rent, including amounts to the charities based on Seyburn's assignment.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Seyburn's income tax for 1960, including the amounts distributed to the charities in Seyburn's income. Seyburn contested this, arguing he had effectively transferred his partnership interest. The case was heard by the United States Tax Court, which issued its opinion on January 9, 1969.

Issue(s)

1. Whether Seyburn's assignment of a portion of his partnership interest to charities was effective to relieve him from tax liability on the partnership's income distributed to those charities.

Holding

1. No, because Seyburn's assignment lacked any business purpose and was merely an anticipatory assignment of ordinary partnership income, making the income taxable to Seyburn upon the partnership's collection and disbursement of the rent.

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Court’s Reasoning

The Tax Court found that Seyburn’s assignment was ineffective to transfer a partnership interest because it occurred while the partnership was in liquidation, with no intention to continue the business. The court relied on the precedent set in Paul W. Trousdale, which held that an assignment of partnership interest in a liquidating partnership was not valid if it lacked business purpose and was merely an attempt to shift tax liability. The court emphasized that the assignment was not treated as a true transfer of partnership interest, as the partnership agreement was not amended to include the charities, and distributions to the charities were delayed compared to those to the partners. The court concluded that Seyburn’s assignment was an anticipatory assignment of income, taxable to him under the principle that income must be taxed to those who earn it.

Practical Implications

This decision underscores the importance of the substance over form doctrine in tax law. For practitioners, it highlights that attempts to assign partnership interests during liquidation to avoid tax liability will be scrutinized for business purpose. Businesses must ensure that any such assignments are genuine transfers of interest, not merely attempts to shift tax burdens. This case has been cited in subsequent rulings to distinguish between valid transfers of partnership interests and attempts to assign income. It serves as a reminder that tax planning strategies must align with the underlying economic realities of the transaction to be effective.

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