***Leslie Q. Coupe and Maybelle Coupe, Petitioners v. Commissioner of Internal Revenue, Respondent, 52 T. C. 394 (1969)***

Section 1031 exchanges can be valid even if structured through intermediaries, provided the taxpayer does not receive or control the cash proceeds from the sale.

**Summary**

The Coupes sold their farm to Southern Pacific Co. (S. P. ) for $2,500 per acre but arranged to exchange portions of the farm for other properties through their attorneys, Polhemus and Brannely, who acted as intermediaries. The Tax Court held that the exchanges of farm parcels for other properties qualified as tax-free under Section 1031, but the exchange for a deed-of-trust note did not. The court also ruled that the Coupes received taxable interest income and that certain attorney fees were not deductible as selling expenses. This case illustrates the complexities of structuring Section 1031 exchanges and the importance of maintaining the exchange's substance over form.

**Facts**

Leslie and Maybelle Coupe contracted to sell their 188. 943-acre farm to S. P. for $2,500 per acre, with payments to be made in installments. The agreement allowed S. P. to pay with exchange property. The Coupes, desiring to continue farming, engaged attorneys Polhemus and Brannely to arrange exchanges of farm parcels for other farmland. In 1960, they exchanged 29. 92 acres of their farm for the McEnerney and Sala properties, and in 1961, they exchanged 132. 214 acres for the Schauer and Bettencourt properties. They also received a deed-of-trust note and cash, including interest payments from S. P.

**Procedural History**

The Commissioner determined deficiencies in the Coupes' 1960 and 1961 income taxes, asserting that the transactions were taxable sales rather than tax-free exchanges. The Tax Court heard the case and issued its decision on June 11, 1969, ruling in favor of the Coupes on the Section 1031 exchanges but against them on other issues.

**Issue(s)**

1. Whether the Coupes' transfers of their farm parcels to S. P. through intermediaries constituted tax-free exchanges under Section 1031.
2. Whether the exchange of farm property for a deed-of-trust note qualified as a tax-free exchange under Section 1031.
3. Whether the Coupes received taxable interest income from S. P.
4. Whether certain attorney fees paid by the Coupes were deductible as selling expenses.

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## Holding

1. Yes, because the Coupes exchanged their farm parcels for like-kind properties without receiving or controlling the cash proceeds from S. P.
2. No, because a deed-of-trust note is not like-kind property under Section 1031.
3. Yes, because the Coupes retained the right to receive interest payments from S. P.
4. No, because most of the attorney fees were for arranging the exchanges and were not deductible as selling expenses.

## Court’s Reasoning

The court held that the exchanges were valid under Section 1031 because the Coupes did not receive or control the cash proceeds from S. P. The intermediaries, Polhemus and Brannely, acted as agents for S. P. , not the Coupes, for the exchanges. The court emphasized that the substance of the transactions was an exchange of properties, not a sale for cash. The exchange for the deed-of-trust note did not qualify under Section 1031 because notes are specifically excluded from like-kind property. The interest payments were taxable because the Coupes retained the right to receive them. The court allocated most of the attorney fees to the acquisition of new properties, making them non-deductible as selling expenses.

## Practical Implications

This decision clarifies that Section 1031 exchanges can be structured through intermediaries, as long as the taxpayer does not receive or control the cash proceeds. It highlights the importance of maintaining the substance of an exchange over its form. Taxpayers must be cautious when including non-like-kind property in exchanges, as these will be taxable. The case also demonstrates that interest income remains taxable even in the context of an exchange. Practitioners should carefully document the roles of intermediaries and ensure that all aspects of the transaction align with Section 1031 requirements. This ruling has been cited in subsequent cases to support the validity of multi-party exchanges.

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