A. T. Newell Realty Co. v. Commissioner, 56 T. C. 130 (1969)

In eminent domain cases, a sale occurs when title and possession transfer to the condemnor, not when compensation is received, for the purpose of applying tax code section 337(a).

Summary

In A. T. Newell Realty Co. v. Commissioner, the U. S. Tax Court ruled that the sale of property through eminent domain occurred when the Urban Redevelopment Authority filed a declaration of taking and offered compensation, not when the property was later deeded and payment received. The court held that this sale preceded the corporation's plan of liquidation, thus the gain from the sale was taxable and did not qualify for nonrecognition under section 337(a) of the Internal Revenue Code. This decision clarified that the timing of a sale for tax purposes in eminent domain cases is determined by when title and possession transfer, regardless of the taxpayer's accounting method.

Facts

On May 4, 1965, the Urban Redevelopment Authority of Bradford, Pennsylvania, served a notice of condemnation on A. T. Newell Realty Co. and filed a declaration of taking. On May 7, 1965, the Authority offered $160,000 as compensation. The corporation, using a cash basis of accounting, did not file any objections to the condemnation. On August 21, 1965, shareholders approved selling the property to the Authority for $175,000 and voted to liquidate the corporation. The property was deeded to the Authority on September 14, 1965, with payment received by the trustees on the same day.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency for the year 1965, asserting that the gain on the sale of the property was taxable. A. T. Newell Realty Co. and its trustees petitioned the U. S. Tax Court, arguing that the sale occurred within the 12-month period after adopting a plan of liquidation, thus qualifying for nonrecognition of gain under section 337(a). The Tax Court upheld the Commissioner's position, ruling in favor of the respondent.

Issue(s)

1. Whether the sale of the corporation's property to the Urban Redevelopment Authority occurred prior to the adoption of the plan of liquidation, thus not qualifying for nonrecognition of gain under section 337(a) of the Internal Revenue Code.

Holding

1. Yes, because the sale was deemed to have occurred when the Authority filed the declaration of taking and offered compensation on May 7, 1965, which preceded the adoption of the plan of liquidation on August 21, 1965.

Court's Reasoning

The court applied Pennsylvania's Eminent Domain Code, which states that title and possession transfer to the condemnor upon filing the declaration of taking and offering compensation. The court held that this constituted a sale under section 337(a), regardless of the taxpayer's cash basis accounting method. The court cited precedent from cases like Covered Wagon, Inc. v. Commissioner, affirming that a sale occurs when title vests in the condemnor. The court rejected the argument that the timing of the sale should be based on when the taxpayer must recognize income, as this would contradict the statute's clear language. The court also found no basis for the argument that the condemnation was defective or rescinded, as the corporation accepted the condemnation and only negotiated the compensation amount.

Practical Implications

This decision establishes that in eminent domain cases, the timing of a sale for tax purposes is determined by when title and possession transfer, not when compensation is received. This impacts how attorneys and accountants advise clients on the tax implications of eminent domain proceedings. It clarifies that the nonrecognition provisions of section 337(a) do not apply if a plan of liquidation is adopted after a valid condemnation, even if payment is received later. This ruling has been applied in subsequent cases to determine the effective date of sales in eminent domain scenarios and affects how businesses plan for liquidation in the context of eminent domain actions.

