Busse v. Commissioner, 58 T. C. 389 (1972)

Payments from patent sales by holders are exempt from imputed interest under Section 483(f)(4), even if capital gain treatment is not derived from Section 1235.

Summary

Curtis Busse sold a patent to a related corporation and received payments as capital gains. The IRS argued that part of these payments should be treated as imputed interest under Section 483. The Tax Court held that the payments were exempt from imputed interest because the sale was described in Section 1235(a), despite not qualifying for capital gain treatment under Section 1235 due to the related-party transaction. The court emphasized that the plain language of the statutes and regulations supported the exemption, following the precedent set in *Floyd G. Paxton*.

Facts

Curtis T. Busse invented a method and machine for stacking cans on pallets and obtained a patent. In 1966, Busse and his sister-in-law sold the patent to Busse Bros. , Inc. , a corporation in which they owned equal shares. The sale agreement provided for periodic payments based on the corporation’s net sales of related products. Busse reported these payments as long-term capital gains. The IRS determined that a portion of the 1967 payments should be treated as unstated interest under Section 483.

Procedural History

The IRS issued a notice of deficiency, asserting that $3,017. 20 of the 1967 payments was unstated interest. Busse petitioned the U. S. Tax Court for a redetermination of the deficiency. The Tax Court ruled in favor of Busse, holding that the payments were exempt from imputed interest under Section 483(f)(4).

Issue(s)

1. Whether payments received by Busse from the sale of a patent to a related corporation are subject to imputed interest under Section 483.

Holding

1. No, because the sale was described in Section 1235(a), the payments fall within the exception prescribed by Section 483(f)(4) to the unstated-interest provisions of Section 483.

Court’s Reasoning

The Tax Court’s decision was based on the literal interpretation of Section 483(f)(4), which exempts payments from patent sales described in Section 1235(a) from

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imputed interest. The court noted that the transaction met the description in Section 1235(a), despite being excluded from capital gain treatment under Section 1235(d) due to the related-party nature of the sale. The court rejected the IRS's argument that the exception should only apply if the sale qualified for capital gain treatment under Section 1235, emphasizing the clear language of the statute and regulations. The court also followed its precedent in *Floyd G. Paxton*, which held that the Section 483(f)(4) exception applied even when capital gain treatment was based on other provisions of the Code.

Practical Implications

This decision clarifies that payments from patent sales by holders are exempt from imputed interest under Section 483(f)(4), regardless of whether the sale qualifies for capital gain treatment under Section 1235. Practitioners should ensure that patent sales meet the criteria for being "described in Section 1235(a)" to claim this exemption. The ruling may encourage inventors to structure patent sales to related parties in a way that maximizes capital gain treatment while avoiding imputed interest. Subsequent cases have applied this ruling to similar transactions, reinforcing the broad application of the Section 483(f)(4) exception.

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