Peeler Realty Co. v. Commissioner, 60 T. C. 705 (1973)

Gains from shareholder sales of distributed corporate property are not imputable to the corporation without significant corporate participation in the sale.

Summary

Peeler Realty Co. distributed land to its shareholders, who subsequently sold it. The IRS argued the sales gains should be imputed to the corporation as corporate income. The Tax Court held that the gains were not taxable to the corporation because it did not participate significantly in the sales. The decision hinged on the Fifth Circuit's ruling in Hines v. United States, requiring active corporate involvement for imputation. The court also found no anticipatory assignment of income, as the land was not income but appreciated property requiring a sale to realize gain.

Facts

Peeler Realty Co. , a Mississippi corporation, owned approximately 25,000 acres of land originally acquired at low cost. In 1966, the company distributed this land to its shareholders as a nonliquidating dividend. Shortly after, the shareholders sold most of the land to International Paper Co. and a smaller portion to an individual. Peeler Realty did not report these sales as corporate income on its tax return. The IRS asserted that the gains should be imputed to Peeler Realty, arguing the distribution was made in contemplation of sale to avoid corporate-level tax.

Procedural History

The IRS assessed a deficiency against Peeler Realty for failing to report the gains from the shareholders' sales as corporate income. Peeler Realty contested this in the U. S. Tax Court, which found in favor of the company. The court's decision followed the precedent set by the Fifth Circuit in the related case of Hines v. United States, which rejected the IRS's theory of imputation based on tax avoidance intent alone.

Issue(s)

1. Whether the gains from the shareholders' sales of the distributed land are imputable to Peeler Realty Co. because the company participated significantly in the sales transactions?
2. Whether the distribution of the land to shareholders constituted an anticipatory assignment of income by Peeler Realty Co. ?

Holding

1. No, because Peeler Realty Co. did not participate in the sales transactions in any significant manner, as required by the Fifth Circuit's precedent in Hines v. United States.

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2. No, because the land distributed was appreciated property, not income, and thus the distribution did not constitute an anticipatory assignment of income.

Court’s Reasoning

The Tax Court followed the Fifth Circuit’s ruling in Hines v. United States, which held that imputation of income to a corporation requires the corporation’s significant participation in the sales transaction. The court found no such participation by Peeler Realty Co. in the sales to International Paper Co. or the individual buyer. The court also dismissed the anticipatory assignment of income doctrine, noting that the land was not income in the hands of the corporation but rather appreciated property requiring a sale to realize gain. The court emphasized the distinction between income and appreciated property, relying on Campbell v. Prothro and other cases to support its conclusion.

Practical Implications

This decision clarifies that corporations distributing appreciated property to shareholders will not be taxed on subsequent sales by shareholders unless the corporation significantly participates in the sales. It underscores the importance of corporate non-involvement in post-distribution sales to avoid imputation of gains. Practitioners should advise closely held corporations to maintain clear separation between corporate and shareholder actions regarding distributed assets. The ruling may encourage corporations to distribute appreciated assets to shareholders to realize gains at the individual level, potentially influencing tax planning strategies. Subsequent cases like Blueberry Land Co. v. Commissioner have further refined the application of the imputation doctrine, emphasizing the need for direct corporate involvement in sales transactions.

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