Rainier Companies, Inc. v. Commissioner, 61 T. C. 157 (1973)

A sale of property is not an involuntary conversion under threat of condemnation if the threat is too remote, and a transfer of property cannot be considered a charitable contribution without donative intent.

Summary

In Rainier Companies, Inc. v. Commissioner, the Tax Court ruled that the sale of a baseball stadium by Rainier Companies to the City of Seattle did not qualify as an involuntary conversion under threat of condemnation because the threat was too remote. The court also determined that the transfer of the stadium improvements to the city was not a charitable contribution due to lack of donative intent. However, the transfer of certain personal property was deemed a gift, exempting it from ordinary income recognition. This case clarifies the requirements for claiming involuntary conversion and charitable contribution deductions, emphasizing the necessity of a credible threat of condemnation and genuine donative intent.

Facts

Rainier Companies, Inc. , formerly Sicks' Rainier Brewing Co. , owned Sicks' Stadium in Seattle since its construction in 1938. Initially used by their minor league baseball team, the stadium was later leased to major league teams due to unprofitability. In 1964, Rainier considered selling or converting the stadium for commercial use. They offered to sell it to the City of Seattle for $1,500,000 or to any private party willing to use it for sports. In 1965, the City expressed interest in acquiring the land due to potential future use for an expressway, but no imminent condemnation was planned. Rainier sold the land to the City for $1,150,000 and "donated" the stadium improvements. They claimed the sale was an involuntary conversion and the donation a charitable contribution.

Procedural History

Rainier Companies filed a petition with the Tax Court challenging the Commissioner's determination of tax deficiencies for 1966 and 1967. The court addressed three issues: whether the sale was an involuntary conversion, whether the donation of stadium improvements constituted a charitable contribution, and whether the transfer of personal property resulted in ordinary income.

Issue(s)

1. Whether the sale of the stadium to the City of Seattle was an involuntary conversion under threat of condemnation?
2. Whether the alleged donation of the stadium improvements to the City of Seattle constituted a charitable contribution?
3. Whether the transfer of personal property to the City resulted in ordinary income under section 1245?

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Holding

1. No, because the threat of condemnation was too remote and speculative to qualify under section 1033.
2. No, because the transfer lacked donative intent and was part of the sale inducement.
3. No, because the transfer of personal property was intended as a gift and thus exempt from ordinary income recognition under section 1245(b)(1).

Court's Reasoning

The court applied section 1033's requirement of a "threat or imminence of condemnation" for involuntary conversion. They noted that mere knowledge of the City's condemnation power was insufficient; there needed to be a reasonable belief that condemnation was likely if the property was not sold. The court found no such credible threat existed, as the expressway project was in early stages with no immediate plans for condemnation. For the charitable contribution issue, the court used the definition of a gift as a voluntary transfer without consideration. They determined Rainier's primary motivation was to sell the land, not to make a charitable donation, thus lacking donative intent. Regarding the personal property, the court recognized it as a gift because it was not part of the sale negotiations and was transferred without expectation of additional benefit.

Practical Implications

This decision clarifies that for a sale to qualify as an involuntary conversion under threat of condemnation, the threat must be immediate and credible. It impacts how taxpayers should document and substantiate such claims. The ruling also underscores that for a transfer to qualify as a charitable contribution, the transferor must have genuine donative intent, not merely use the transfer as an inducement for a sale. Practitioners should advise clients to clearly separate any charitable intent from business transactions. The case's distinction between the treatment of real and personal property transfers highlights the importance of properly categorizing assets in tax planning. Subsequent cases have cited Rainier when addressing similar issues of involuntary conversion and charitable contributions.

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