Wrenn v. Commissioner, 72 T. C. 337 (1979)

Interspousal installment sales must demonstrate a bona fide purpose beyond tax avoidance to qualify for installment sale treatment under section 453 of the IRC.

Summary

In Wrenn v. Commissioner, the Tax Court ruled that Philip Wrenn could not report the gain from selling stocks to his wife, Dorothy Wrenn, in installments under section 453 of the Internal Revenue Code. The court found the transaction lacked a bona fide purpose beyond tax avoidance, as Dorothy immediately resold the stocks and used the proceeds to buy mutual fund shares only as contractually required. The ruling emphasizes the need for a substantive, non-tax-related purpose in interspousal transactions to qualify for installment sale treatment, impacting how such transactions are structured and reported.

Facts

Philip Wrenn sold common stocks to his wife, Dorothy Wrenn, under an installment sales contract in January 1973 for $250,000, to be paid in monthly installments over 15 years with 5% interest. Dorothy immediately resold the stocks on the open market for $250,874 and used the proceeds to purchase $250,000 in Fidelity Trend Fund shares as required by the contract. The Wrenns reported the gain from the sale on their 1973 joint tax return using the installment method, which the IRS challenged, asserting the transaction lacked substance and was designed solely for tax avoidance.

Procedural History

The IRS determined a deficiency in the Wrenns' 1973 federal income tax and disallowed their use of the installment method. The case was submitted to the U. S. Tax Court without trial, relying on a stipulation of facts. The Tax Court upheld the IRS's determination, ruling that the transaction did not qualify for installment sale treatment under section 453.

Issue(s)

1. Whether the gain realized by Philip Wrenn from the sale of common stocks to his wife, Dorothy Wrenn, may be reported in annual installments under section 453 of the Internal Revenue Code?

Holding

1. No, because the court found that the transaction lacked a bona fide purpose other than tax avoidance, as evidenced by Dorothy's immediate resale of the stocks and the absence of any independent purpose for her purchase.

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Court’s Reasoning

The Tax Court applied the

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