***Catterall v. Commissioner*, 68 T.C. 413 (1977)**

Imputed interest rules under Section 483 of the Internal Revenue Code apply to deferred payments of stock in tax-free reorganizations, even when the reorganization itself qualifies for non-recognition of gain under Sections 354 and 368.

Summary

Petitioners sold their stock in Berwick Forge & Fabricating Corp. to Whittaker Corp. in a tax-free 'B' reorganization, receiving initial Whittaker stock and the right to contingent 'reserve shares' based on Berwick's future profits. When the reserve shares were issued in 1971, the IRS determined that imputed interest under Section 483 applied to the deferred stock payments. The Tax Court upheld the IRS's determination, reasoning that the delivery of the reserve shares constituted a 'payment' under Section 483, and that the non-recognition provisions of corporate reorganizations do not preclude the application of imputed interest rules to deferred payments within such reorganizations. The court emphasized that Section 483 and the reorganization sections address different aspects of the transaction: the reorganization sections concern gain recognition, while Section 483 concerns interest income.

Facts

Petitioners owned all the stock of Berwick Forge & Fabricating Corp.

On April 15, 1968, petitioners entered into an acquisition agreement with Whittaker Corp. for a tax-free 'B' reorganization.

Pursuant to the agreement, petitioners exchanged their Berwick stock for Whittaker voting stock, receiving an initial distribution of 115,000 shares.

The agreement also provided for 'reserve shares' (up to 113,300 shares), to be delivered to petitioners based on Berwick's future profits over three 'adjustment' years and the market value of Whittaker stock.

No provision was made for the payment of interest on the reserve shares.

In 1971, based on Berwick's profits and Whittaker stock value, petitioners became entitled to the reserve shares and received 48,625 shares each.

The IRS determined that the receipt of these additional shares in 1971 triggered imputed interest under Section 483.

Procedural History

The Commissioner determined deficiencies in the petitioners' federal income taxes

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for 1971, attributing the deficiencies to imputed interest on the receipt of Whittaker shares.

Petitioners challenged the Commissioner's determination in the Tax Court.

The cases were consolidated for trial, briefing, and opinion in the Tax Court.

Issue(s)

1. Whether the delivery of the reserve shares in 1971 constituted a 'payment' within the meaning of Section 483 of the Internal Revenue Code.

2. Whether the specific provisions of the reorganization sections (Sections 354 and 368) take precedence over the general imputed interest provisions of Section 483.

3. Whether Congress intended Section 483 to apply to deferred stock payments received in a tax-free reorganization.

Holding

1. Yes, because the delivery of the additional shares in 1971 constituted a 'payment' within the meaning of Section 483.

2. No, because the reorganization provisions and Section 483 address different aspects of a transaction, and there is no inherent conflict between them.

3. Yes, because Congress intended Section 483 to have far-reaching consequences, and no exception exists within Section 483(f) for tax-free reorganizations.

Court's Reasoning

The court reasoned that the delivery of shares constituted a 'payment' under Section 483, distinguishing the focus of reorganization provisions from that of imputed interest rules. The court stated, "*The focus of the reorganization provisions is upon what ultimately will be issued in exchange for the certificates of contingent interest, whereas the focus of the imputed interest provisions is upon when that ultimate issuance occurs.*"

Regarding the precedence of reorganization sections, the court found no conflict with Section 483. Section 354 concerns the non-recognition of gain or loss, while Section 483 addresses the characterization of a portion of deferred payments as interest income, a separate category of gross income under Section 61(a)(4). The court distinguished *Fox v. United States*, noting that Sections 71 and 215 specifically govern divorce-related payments, unlike the broader scope of reorganization sections.

The court further reasoned that Congress intended Section 483 to have broad

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application, noting the absence of a specific exception for reorganizations in Section 483(f). Referencing legislative history and the principle of *expressio unius est exclusio alterius*, the court inferred that the enumerated exceptions in Section 483(f) implied an intention to exclude other unstated exceptions. The court also cited *Jeffers v. United States*, emphasizing the broad reach Congress intended for Section 483: "*the language Congress used for section 483 implies that [it] intended the section to have far-reaching consequences on the entire Internal Revenue Code.*"

Practical Implications

Catterall establishes that imputed interest under Section 483 can apply to deferred stock payments in tax-free reorganizations, specifically 'B' reorganizations involving contingent stock consideration. This decision highlights that tax-free reorganizations are not entirely exempt from other generally applicable tax rules, such as imputed interest.

Legal practitioners structuring reorganizations with deferred or contingent stock payouts must consider the potential application of Section 483 to avoid unintended interest income consequences for the selling shareholders. This case reinforces the IRS's position, as reflected in Treasury Regulations, that imputed interest rules extend to deferred payments in reorganizations, impacting how such transactions are planned and executed.

Subsequent cases and rulings must account for *Catterall* when addressing contingent consideration in tax-free reorganizations, ensuring that appropriate interest is either stated or imputed to reflect the time value of money in deferred stock distributions.

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