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

The receipt of deferred stock payments in a tax-free reorganization can be subject to imputed interest under section 483 of the Internal Revenue Code.

Summary

In Catterall v. Commissioner, the petitioners exchanged their stock in Berwick Forge & Fabricating Corp. for Whittaker Corp. stock in a tax-free reorganization. The agreement included provisions for additional shares based on future profits and stock value, which were delivered in 1971 without interest. The IRS imputed interest on these shares under section 483. The Tax Court held that these deferred stock payments were subject to imputed interest, affirming that section 483 applies to stock received in reorganizations, even when the reorganization itself is tax-free under sections 354 and 368.

Facts

In 1968, petitioners exchanged their shares in Berwick Forge & Fabricating Corp. for Whittaker Corp. stock in a tax-free reorganization under sections 354(a)(1) and 368(a)(1)(B). The agreement included a provision for additional shares based on Berwick's future profits and Whittaker's stock value, to be delivered over three years. No interest was specified on these additional shares. In 1971, after Berwick's profits and Whittaker's stock value were determined, petitioners received additional shares as per the agreement.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in petitioners' 1971 federal income taxes, asserting that the additional shares received constituted payments subject to imputed interest under section 483. Petitioners challenged this determination in the United States Tax Court, where the cases were consolidated for trial and opinion.

Issue(s)

1. Whether the receipt of additional shares in 1971 constituted "payments" subject to the imputed interest provisions of section 483.

Holding

1. Yes, because the receipt of additional shares in 1971 was considered a payment under section 483, subject to imputed interest, despite the tax-free nature of the reorganization under sections 354 and 368.

Court's Reasoning

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The Tax Court applied section 483, which addresses interest on certain deferred payments, to the additional shares received by petitioners. The court reasoned that although the reorganization was tax-free under sections 354 and 368, these sections only address the non-recognition of gain or loss, not other types of income like interest. The court followed its prior decision in Solomon v. Commissioner and the Court of Claims' decision in Jeffers v. United States, affirming that deferred payments of stock in reorganizations are subject to section 483. The court also considered the legislative history of section 483, which did not exclude nonrecognition exchanges from its scope, and noted that the Treasury regulations supported the application of section 483 to deferred stock payments. The court rejected petitioners' arguments that the reorganization provisions should take precedence over section 483 or that Congress did not intend for section 483 to apply to reorganizations.

Practical Implications

This decision impacts how tax practitioners and corporations should structure and analyze stock-for-stock reorganizations with deferred payment provisions. It clarifies that even in tax-free reorganizations, deferred stock payments can be subject to imputed interest under section 483, potentially affecting the tax liabilities of shareholders receiving such payments. Practitioners must consider the timing and valuation of deferred payments when planning reorganizations to accurately account for potential tax consequences. The ruling has been cited in subsequent cases involving similar reorganization structures, reinforcing the broad application of section 483 to deferred payments in various contexts.

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