Parker v. Commissioner, 74 T. C. 29 (1980)

Section 1231 capital gains are considered tax preference items subject to the minimum tax under section 56 of the Internal Revenue Code.

Summary

In Parker v. Commissioner, the Tax Court addressed whether gains from the sale of business assets under section 1231 should be treated as tax preference items under section 56, thus subjecting them to the minimum tax. The petitioners, shareholders in a coal processing business, argued that section 1231 gains were not subject to the minimum tax. The court rejected this argument, holding that section 1231 capital gains are indeed tax preference items because they are treated as long-term capital gains subject to the same tax rules as other capital gains. The decision reinforced the policy of the minimum tax, which was to ensure a minimum level of taxation on income receiving preferential treatment under the tax code.

Facts

Nathan K. Parker, Jr. , and Janice C. Parker were shareholders in P. G. Coal Co. , Inc. , which had elected to be taxed as a small business corporation. P. G. Coal was involved in a partnership, P/G/P Associates, which operated a coal plant until its sale in 1976. The sale resulted in a gain reported under section 1231, which was allocated to the petitioners. The IRS determined a deficiency in the petitioners' income tax for 1976, asserting that the section 1231 gain was subject to the minimum tax under section 56.

Procedural History

The case was submitted to the U. S. Tax Court under Rule 122 of the Tax Court Rules of Practice and Procedure. The IRS issued a notice of deficiency to the petitioners, who then filed a petition with the Tax Court challenging the deficiency. The court reviewed the case based on stipulated facts and entered a decision in favor of the respondent (Commissioner of Internal Revenue).

Issue(s)

1. Whether gains on the sale of assets used in a trade or business, treated as long-term capital gains under section 1231, are items of tax preference subject to the minimum tax under section 56?

Holding

1. Yes, because section 1231 gains are considered long-term capital gains and thus fall within the definition of tax preference items under section 57(a)(9)(A), making them subject to the minimum tax under section 56.

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Court’s Reasoning

The court interpreted section 1231, which states that gains from the sale of business assets are treated as long-term capital gains if they exceed losses. The court found that these gains are subject to the same tax rules as other capital gains, including the provisions of sections 1201 through 1212, which are referenced in the regulations. The court also emphasized the policy behind the minimum tax, enacted to ensure that income receiving preferential treatment under the tax code was subject to at least a minimum level of tax. The court cited regulations under section 57, which included section 1231 gains as examples of tax preference items, and upheld these regulations as a reasonable interpretation of the law. The court also dismissed the petitioners’ unargued challenge to the constitutionality of the effective date provisions of section 56, citing precedent that upheld these provisions.

Practical Implications

This decision clarified that gains from the sale of business assets under section 1231 are subject to the minimum tax, impacting how taxpayers and tax professionals should treat such gains. It reinforced the policy of the minimum tax to ensure taxation of income receiving preferential treatment. Taxpayers with section 1231 gains must now consider the potential for minimum tax liability in their tax planning. The ruling also provides guidance for future cases involving the classification of gains as tax preference items, and it has been cited in subsequent cases addressing similar issues. Legal practitioners must be aware of this ruling when advising clients on the tax implications of business asset sales.

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