Estate of Peterson v. Commissioner, 70 T. C. 898 (1978)

For income to be considered "income in respect of a decedent," the decedent must have possessed a right to receive it at the time of death, which includes having performed all substantive acts required under the contract.

Summary

In Estate of Peterson v. Commissioner, the court addressed whether proceeds from the sale of cattle by the estate of Charley W. Peterson were "income in respect of a decedent" under section 691. The decedent had entered into a livestock sales contract before his death but had not completed all necessary acts for the sale. The court determined that the estate's efforts post-death were essential to the sale, thus the proceeds were not considered income in respect of the decedent. This ruling emphasized the requirement that the decedent must have a right to the income at the time of death, which includes having performed all substantive acts required under the contract.

Facts

Charley W. Peterson entered into a livestock sales contract with Max Rosenstock Co. on July 11, 1972, to sell approximately 3,300 head of calves. Peterson died on November 9, 1972, without having delivered any calves or set delivery dates. After his death, his estate continued to raise and feed the calves, selecting delivery dates ranging from December 8 to December 15, 1972. The estate culled 328 calves before delivery, and a total of 2,929 calves were accepted, with 2,398 owned by the estate. At the time of Peterson's death, two-thirds of the estate's calves were deliverable under the contract terms, while the rest were too young.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency of $225,208. 33 for the estate's 1973 taxable year, asserting that the sale proceeds were income in respect of the decedent. The estate filed a petition with the Tax Court to contest this determination. The Tax Court reviewed the case, focusing on the application of section 691 regarding income in respect of a decedent.

Issue(s)

1. Whether the proceeds from the sale of 2,398 calves by the Estate of Charley W. Peterson constituted "income in respect of a decedent" under section 691 of the Internal Revenue Code.

Holding

1. No, because the decedent had not performed all substantive acts required under the livestock sales contract at the time of his death. The estate's post-death efforts

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were essential to completing the sale.

Court’s Reasoning

The court applied four requirements to determine if the sale proceeds were income in respect of a decedent: (1) the decedent must have entered into a legally significant arrangement; (2) the decedent must have performed all substantive acts required under the contract; (3) there must be no economically material contingencies at the time of death; and (4) the decedent would have received the proceeds if he had lived. The court found that Peterson had entered into a valid sales contract, but he had not performed all substantive acts required under the contract because a significant portion of the calves were too young for delivery at his death. The estate’s subsequent efforts were essential to the sale, thus the proceeds did not constitute income in respect of the decedent. The court emphasized that “the estate’s right to the sale proceeds derived from its own efforts as well as those of the decedent. “

Practical Implications

This decision clarifies that for income to be classified as “income in respect of a decedent,” the decedent must have completed all substantive acts required under the contract at the time of death. This ruling affects how estates should analyze similar situations involving post-death sales, particularly in agriculture or other industries where the subject matter of the sale requires ongoing care or development. Attorneys should advise clients that the estate’s efforts in completing a sale post-death can affect the tax treatment of the proceeds. This case also highlights the importance of understanding the specific terms of sales contracts and their impact on tax liabilities. Subsequent cases have applied this ruling to distinguish between income earned by the decedent and income resulting from the estate’s efforts.

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