Miller v. Commissioner, 75 T. C. 182 (1980)

The absolute prohibition against deducting losses from sales or exchanges between family members under IRC Section 267 applies, regardless of family hostility.

Summary

David L. Miller sold stock and real estate to his brother, I. Marvin Miller, as ordered by arbitration to resolve their business dispute. The U. S. Tax Court ruled that Miller could not deduct the losses from these sales under IRC Section 267, which disallows deductions for losses between related parties. Despite the brothers' hostility, the court upheld the statute's absolute prohibition on such deductions, emphasizing that family hostility does not create an exception to the rule. This decision reinforces the strict application of Section 267 and its intent to prevent tax avoidance through intra-family transactions.

Facts

David L. Miller and I. Marvin Miller inherited stock in Charles Miller, Inc. and real estate from their father. They also jointly purchased additional real estate. A dispute arose between them in 1971, leading to arbitration in 1973. The arbitrators ordered David to sell his stock and three parcels of real estate to Marvin. The sales occurred in 1976. David claimed long-term capital and ordinary losses on his 1976 tax return for these sales. The IRS disallowed these deductions under IRC Section 267, which prohibits loss deductions on sales between related parties.

Procedural History

The IRS determined deficiencies in David Miller's 1976 and 1977 federal income taxes due to disallowed loss deductions. Miller petitioned the U. S. Tax Court, which consolidated the cases. The court upheld the IRS's disallowance of the deductions, ruling that Section 267's prohibition on loss deductions between family members applied without exception for family hostility.

Issue(s)

1. Whether the deductions for losses sustained from the sales of stock and real property by David Miller to his brother Marvin, ordered by binding arbitration, were properly disallowed under IRC Section 267 despite their hostile relationship.

Holding

1. No, because IRC Section 267 contains an absolute prohibition against deducting losses from sales or exchanges between family members, and family hostility does not create an exception to this rule.

Court's Reasoning

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The court applied the plain language of IRC Section 267, which states “no deduction shall be allowed” for losses from sales between related parties. The court emphasized that Congress intended an absolute prohibition to prevent tax avoidance through intra-family transactions, as evidenced by legislative history and prior judicial interpretations. The court rejected David Miller’s argument that family hostility should create an exception, noting that the Supreme Court in McWilliams v. Commissioner (1947) had described the prohibition as absolute, not a presumption. The court also distinguished Miller’s case from cases involving IRC Section 318, where family hostility had been considered in certain contexts, stating that Section 267’s legislative history and judicial interpretation did not allow for such exceptions. The court concluded that the prohibition applied regardless of the brothers’ hostility, as the statute’s purpose was to prevent taxpayers from choosing the timing of realizing tax losses on investments that remained within the family.

Practical Implications

This decision reinforces the strict application of IRC Section 267, ensuring that losses from sales between family members cannot be deducted, even in cases of involuntary sales or family hostility. Practitioners should advise clients that the timing and structure of intra-family property transactions cannot be used to generate tax deductions. The ruling may impact family business planning, requiring careful consideration of how to separate assets without triggering disallowed loss deductions. Subsequent cases have continued to apply this ruling strictly, and it remains a key precedent in tax law regarding intra-family transactions.

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