E-B Grain Co. v. Commissioner, 81 T. C. 70 (1983)

Section 7503 extends the deadline for performing any act under the Internal Revenue Code when the last day falls on a Saturday, Sunday, or legal holiday.

Summary

E-B Grain Co. , an electing small business corporation, distributed funds to shareholders on October 17, 1977, two days after the statutory deadline under section 1375(f)(1), which fell on a Saturday. The IRS argued these distributions were late, thus taxable as dividends. The Tax Court held that section 7503 extended the deadline to the next business day, making the distributions timely and nontaxable, reaffirming the broad application of section 7503 to all acts required by the tax code, not just procedural ones.

Facts

E-B Grain Co. was an electing small business corporation for its fiscal year ending July 31, 1977. Its election was revoked for the next fiscal year. On October 15, 1977, the last day to distribute funds under section 1375(f)(1), E-B Grain was closed as it fell on a Saturday. On October 17, 1977, E-B Grain distributed $50,000 to each of its two shareholders, Kirby and Marvin Everette, within their share of the corporation's undistributed taxable income for the fiscal year ending July 31, 1977.

Procedural History

The IRS determined deficiencies in the shareholders' income tax, treating the distributions as taxable dividends. The case was submitted to the Tax Court on stipulated facts. The Tax Court consolidated the cases of E-B Grain and its shareholders and held that the distributions were timely under section 7503, reversing the IRS's position.

Issue(s)

1. Whether section 7503 extends the deadline for distributions under section 1375(f)(1) when the last day falls on a Saturday, Sunday, or legal holiday.

Holding

1. Yes, because section 7503 applies to extend the deadline for any act required by the Internal Revenue Code, including the distribution of previously taxed income under section 1375(f)(1), to the next business day when the statutory deadline falls on a non-business day.

Court's Reasoning

The Tax Court interpreted section 7503 broadly, rejecting the IRS's argument that it

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only applied to procedural acts. The court emphasized the plain language of section 7503, which applies to “any act” prescribed by the tax laws. The court also relied on its prior decision in Snyder v. Commissioner, which rejected a narrow reading of section 7503. Furthermore, the court noted that even without section 7503, the common law doctrine from Campbell Chain Co. v. Commissioner would extend the deadline based on fairness and convenience. The court concluded that applying section 7503 prevented the “harsh and accidental” result of taxing distributions as dividends due to the deadline falling on a non-business day.

Practical Implications

This decision clarifies that section 7503 applies to all acts required by the Internal Revenue Code, not just procedural ones, thereby extending deadlines to the next business day when they fall on non-business days. Taxpayers and practitioners must consider this when planning transactions near statutory deadlines. The ruling affects how similar cases should be analyzed, ensuring that deadlines are interpreted to avoid unfair outcomes due to non-business days. It also impacts the IRS’s ability to challenge the timeliness of distributions or other tax-related actions based on calendar dates. Subsequent cases have followed this broad interpretation of section 7503.

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