Robinson v. Commissioner, 82 T. C. 467 (1984)

Blockage is not a "restriction" under section 83(a)(1) of the Internal Revenue Code and may be considered in determining the fair market value of stock.

Summary

In Robinson v. Commissioner, the U. S. Tax Court addressed whether the concept of "blockage" should be considered in valuing shares of stock for tax purposes. The case involved Prentice I. Robinson, who received stock from Centronics Data Computer Corp. as compensation for employment. The court held that blockage, which refers to a potential decrease in stock value due to a large block's sale, is not a "restriction" under section 83(a)(1) of the Internal Revenue Code. Therefore, blockage can be taken into account when determining the fair market value of the stock, impacting how similar cases involving stock valuation for tax purposes are analyzed.

Facts

Prentice I. Robinson obtained 153,000 shares of Centronics stock in 1974 by exercising an option granted to him in 1969 as part of his employment agreement. The stock's fair market value on the date of exercise needed to be determined for tax purposes. The issue of blockage arose, which refers to the potential impact on stock price when a large block of stock is sold, potentially depressing the market value.

Procedural History

The case was brought before the U. S. Tax Court through motions for partial summary judgment. Both Robinson and Centronics sought to clarify whether blockage should be considered in valuing the stock. The Commissioner of Internal Revenue agreed with Robinson's position. The Tax Court ultimately granted Robinson's motion and denied Centronics' motion, ruling that blockage is not a restriction and can be considered in determining fair market value.

Issue(s)

1. Whether "blockage" constitutes a "restriction" within the meaning of section 83(a)(1) of the Internal Revenue Code, thereby affecting the valuation of stock.

Holding

1. No, because blockage is not a "restriction" as defined by section 83(a)(1); it is a factor affecting market value and may be considered in valuing stock.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The court reasoned that a “restriction” under section 83(a)(1) must have specific terms indicating whether it lapses, which blockage does not. The court emphasized that blockage is an economic market factor, not a legal or contractual limitation on transferability or ownership of stock. The court cited its own precedent in Frank v. Commissioner, where it was held that the size of stock holdings did not constitute a restriction. The court distinguished blockage from contractual or statutory restrictions, which had been previously recognized as restrictions under section 83. The court concluded that blockage should be considered in determining fair market value as it impacts the price at which property would change hands between willing buyers and sellers.

Practical Implications

This decision clarifies that blockage can be considered when valuing stock for tax purposes, affecting how attorneys and appraisers approach similar cases. It underscores the distinction between economic factors like blockage and legal restrictions, guiding the valuation process in tax cases. This ruling may influence business practices related to stock compensation and the strategic timing of stock sales to minimize tax liabilities. Subsequent cases have continued to apply this principle, ensuring that economic realities are reflected in stock valuation for tax purposes.

© 2025 SCOTUSreports.com. All rights reserved.