Rivera v. Commissioner, 89 T. C. 343 (1987)

Forward contracts in stock are not considered positions in personal property for the purpose of tax straddle rules under section 1092 of the Internal Revenue Code.

Summary

In Rivera v. Commissioner, the U. S. Tax Court ruled that forward contracts in stock do not fall under the tax straddle rules of section 1092 of the Internal Revenue Code. Maria Rivera purchased forward contracts in stock, which she used to claim significant losses on her tax return. The Commissioner argued these were straddles subject to loss limitations under section 1092. The Court, however, determined that the statute explicitly excludes stock from the definition of personal property, thus forward contracts in stock are not subject to section 1092. This ruling was based on a detailed analysis of the statutory language and legislative history, emphasizing the focus of section 1092 on commodity-related property rather than stock.

Facts

Maria Rivera purchased forward contracts in stock through Merit Securities, Inc. , which offered these contracts to sophisticated investors. Rivera entered into spread transactions, purchasing both long and short forward contracts on the same securities but with different delivery dates and prices. She claimed substantial losses from these investments on her 1981 federal income tax return. The Commissioner issued a notice of deficiency, asserting that these transactions constituted straddles subject to the loss limitation rules of section 1092.

Procedural History

Rivera filed a timely petition with the U. S. Tax Court following the Commissioner's notice of deficiency. Both parties filed cross-motions for partial summary judgment on whether forward contracts in stock were covered by section 1092. The case was heard by Special Trial Judge Peter J. Panuthos, and the Court's opinion adopted his findings.

Issue(s)

1. Whether forward contracts in stock constitute positions in personal property within the meaning of section 1092(d)(2)(A) of the Internal Revenue Code.

Holding

1. No, because section 1092(d)(1) explicitly excludes stock from the definition of personal property, thus forward contracts in stock are not positions in personal property under section 1092(d)(2).

Court's Reasoning

The Court’s decision hinged on the interpretation of section 1092, which defines personal property as “any personal property (other than stock) of a type which is actively traded. ” The Court found that the plain language of the statute excludes stock, and thus forward contracts in stock, from the definition of personal property. The legislative history supported this interpretation, focusing section 1092 on commodity-related property and excluding stock except for certain long-term stock options. The Court rejected the Commissioner’s argument that the legislative history suggested an intent to include forward contracts in stock, finding instead that Congress intended to address commodity straddles and not stock transactions, which were already covered by other sections like section 1091.

Practical Implications

This ruling clarifies that forward contracts in stock are not subject to the tax straddle rules under section 1092, allowing taxpayers to claim losses from such contracts without the limitations imposed by the straddle rules. Practitioners should be aware that this decision applies to the version of section 1092 in effect in 1981, as subsequent amendments have altered the scope of the statute. The decision underscores the importance of precise statutory language and legislative intent in interpreting tax laws, impacting how similar cases are analyzed and reinforcing the distinction between commodity and stock transactions in tax planning and litigation.

