Maloney v. Commissioner, 93 T. C. 89 (1989)

A like-kind exchange under IRC Section 1031 remains valid even if the property received is distributed to shareholders in a subsequent corporate liquidation under IRC Section 333.

Summary

Maloney Van & Furniture Storage, Inc. (Van) exchanged its I-10 property for Elysian Fields in a like-kind exchange, intending to liquidate under IRC Section 333 and distribute Elysian Fields to its shareholders, the Maloneys. The IRS challenged the nonrecognition of gain under Section 1031, arguing that the intent to liquidate negated the investment purpose. The Tax Court held that the exchange qualified for nonrecognition under Section 1031 because the property was held for investment, and the subsequent Section 333 liquidation did not change the investment intent. This decision affirmed the continuity of investment despite changes in ownership form, impacting how similar corporate transactions are analyzed.

Facts

Van, a corporation controlled by the Maloneys, owned the I-10 property. In 1978, Van exchanged this property for Elysian Fields, intending to consolidate the Maloneys' business operations there. On the advice of their attorney, the Maloneys decided to liquidate Van under IRC Section 333 shortly after the exchange. Van acquired Elysian Fields on December 28, 1978, and adopted a liquidation plan on January 2, 1979, distributing all assets, including Elysian Fields, to the Maloneys by January 26, 1979. The IRS challenged the nonrecognition of gain on the exchange, asserting that the intent to liquidate disqualified it under Section 1031.

Procedural History

The IRS determined deficiencies in the Maloneys' personal and corporate income taxes, asserting that the exchange did not qualify for nonrecognition under Section 1031 due to the intent to liquidate. The cases were consolidated for trial before the U. S. Tax Court. The court's decision focused on whether the exchange qualified for nonrecognition under Section 1031 despite the subsequent liquidation under Section 333.

Issue(s)

1. Whether the exchange of the I-10 property for Elysian Fields qualifies for nonrecognition of gain under IRC Section 1031(a) when the property received was intended to be distributed to shareholders in a subsequent liquidation under IRC Section 333.

Holding

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1. Yes, because the property received was held for investment purposes, and the intent to liquidate under Section 333 does not negate the investment intent required for a valid Section 1031 exchange.

Court's Reasoning

The court applied Section 1031, which defers recognition of gain when property is exchanged for like-kind property held for investment. The court emphasized that Section 1031's purpose is to defer recognition when the taxpayer's economic situation remains unchanged, referencing prior cases like *Bolker v. Commissioner* and *Magneson v. Commissioner*. The court rejected the IRS's argument that the intent to liquidate under Section 333 negated the investment purpose, noting that the Maloneys intended to continue using Elysian Fields for investment after the liquidation. The court concluded that the exchange qualified for nonrecognition because it reflected continuity of ownership and investment intent, despite the change in ownership form.

Practical Implications

This decision clarifies that a like-kind exchange under Section 1031 can be valid even when followed by a Section 333 liquidation, as long as the property remains held for investment. It impacts how attorneys should structure corporate transactions involving like-kind exchanges and subsequent liquidations, ensuring that the investment intent is clear. Businesses can use this ruling to plan tax-efficient transactions, maintaining investment continuity despite changes in corporate structure. Subsequent cases, like *Bolker* and *Magneson*, have relied on this principle, reinforcing its application in similar situations.

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