Lenard L. Politte, M. D. , Inc. v. Commissioner, 101 T. C. 359, 1993 U. S. Tax Ct. LEXIS 65, 101 T. C. No. 24 (1993)

Partnership distributions must be annualized when included in a taxpayer's income for a short tax period.

Summary

Lenard L. Politte, M. D. , Inc. was required to switch to a calendar year under IRC sections 441(i) and 444, resulting in a short tax period from September 1 to December 31, 1988. The company, a partner in Columbia Cardiology Associates, included its distributive share of partnership items in its short-period return but did not annualize these amounts. The Commissioner argued that annualization was required under IRC section 443(b). The Tax Court upheld the Commissioner's position, ruling that all partnership distributions, including guaranteed payments, must be annualized for the short period, emphasizing the clear statutory language and consistent judicial precedent.

Facts

Lenard L. Politte, M. D. , Inc. , a personal service corporation, was mandated to change its fiscal year ending August 31 to a calendar year ending December 31 under IRC sections 441(i) and 444. This change necessitated filing a short-period return for September 1 to December 31, 1988. The company was a general partner in Columbia Cardiology Associates, which operated on a calendar year. In its short-period return, the company included its distributive share of partnership items but did not annualize them, asserting these items represented a full 12-month period of partnership activity. The Commissioner disagreed, asserting that annualization was required under IRC section 443(b).

Procedural History

The Commissioner determined a deficiency in the company's federal income tax for the short period, leading to the filing of a petition with the U. S. Tax Court. The Tax Court heard the case and ruled in favor of the Commissioner, requiring the company to annualize the partnership distributions.

Issue(s)

1. Whether the company was required to annualize its distributive share of partnership items, including guaranteed payments, for the short tax period under IRC section 443(b).

Holding

1. Yes, because IRC section 443(b) mandates annualization of all items included in a taxpayer's gross income for a short period, and partnership distributions are

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considered income at the end of the partnership's taxable year within or with that short period.

Court's Reasoning

The Tax Court's decision was based on the plain language of IRC section 443(b), which requires annualization of income for short periods. The court noted that sections 706(a) and 707(c) dictate that partnership distributions, including guaranteed payments, are includable in a partner's income at the end of the partnership's tax year. The court rejected the company's argument that annualization was unnecessary because the partnership items represented a full year's activity, emphasizing that annualization determines the applicable tax rate but the tax itself is prorated. The court also cited legislative history and consistent judicial precedent supporting the requirement for annualization of partnership distributions in short periods.

Practical Implications

This decision clarifies that taxpayers must annualize partnership distributions when filing a short-period return due to a change in accounting period. Practitioners should ensure clients understand this requirement to avoid deficiencies and penalties. The ruling may influence tax planning strategies for partnerships and their partners, particularly those considering changes in tax years. Subsequent cases, such as Jolin v. Commissioner, have followed this precedent, reinforcing the need for annualization in similar circumstances.

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