Ferguson v. Commissioner, 108 T. C. 244 (1997)

The anticipatory assignment of income doctrine applies when stock is donated to charity after a merger agreement and tender offer have effectively converted the stock into a fixed right to receive cash.

Summary

In Ferguson v. Commissioner, the Tax Court ruled that the petitioners were taxable on the gain from stock donated to charities under the anticipatory assignment of income doctrine. The Fergusons owned significant shares in American Health Companies, Inc. (AHC), which entered into a merger agreement and tender offer at $22. 50 per share. Before the merger's completion, the Fergusons donated AHC stock to charities, which subsequently tendered the stock. The court found that by the time more than 50% of AHC's shares were tendered, the stock had been converted from an interest in a viable corporation to a fixed right to receive cash, thus triggering the doctrine. The decision underscores the importance of timing in charitable contributions and the application of substance-over-form principles in tax law.

Facts

Roger and Sybil Ferguson, along with their son Michael, were major shareholders in American Health Companies, Inc. (AHC). In July 1988, AHC entered into a merger agreement with CDI Holding, Inc. and DC Acquisition Corp. , which included a tender offer of $22. 50 per share. By August 31, 1988, over 50% of AHC's shares were tendered or guaranteed, effectively approving the merger. On September 9, 1988, the Fergusons donated AHC stock to the Church of Jesus Christ of Latter-Day Saints and their charitable foundations. These charities tendered the stock on the same day, and the merger was completed on October 14, 1988.

Procedural History

The Fergusons challenged the IRS's determination of deficiencies and penalties in their federal income tax, arguing they were not taxable on the gain from the donated stock. The Tax Court consolidated the cases and heard arguments on the sole issue of the anticipatory assignment of income doctrine's applicability to the donated stock.

Issue(s)

1. Whether the Fergusons are taxable on the gain in the AHC stock transferred to the charities under the anticipatory assignment of income doctrine?

Holding

1. Yes, because the stock was converted from an interest in a viable corporation to a

© 2025 SCOTUSreports.com. All rights reserved.

fixed right to receive cash prior to the date of the gifts to the charities.

Court’s Reasoning

The Tax Court applied the anticipatory assignment of income doctrine, focusing on the reality and substance of the merger and tender offer. The court found that by August 31, 1988, when over 50% of AHC’s shares were tendered or guaranteed, the merger was effectively approved, and the stock’s value was fixed at $22. 50 per share. The court rejected the Fergusons’ arguments that the gifts occurred before the right to receive merger proceeds matured, emphasizing that the charities could not alter the course of events. The court also noted the continued involvement of Sybil Ferguson with AHC post-merger, indicating the merger’s inevitability despite a fire at AHC’s plant. The court relied on cases like Hudspeth v. United States and Estate of Applestein v. Commissioner, which emphasize substance over form in tax law.

Practical Implications

This decision has significant implications for taxpayers considering charitable contributions of stock in the context of corporate transactions. It highlights the need to assess whether a stock donation might be treated as an assignment of income, particularly when a merger or similar transaction is imminent. Practitioners must advise clients to consider the timing of such gifts, as the court will look to the substance of the transaction rather than its formalities. The ruling may affect how taxpayers structure charitable donations to avoid tax on gains and underscores the importance of understanding the anticipatory assignment of income doctrine. Subsequent cases have referenced Ferguson when analyzing similar transactions, reinforcing its role in shaping tax planning strategies involving charitable contributions.

© 2025 SCOTUSreports.com. All rights reserved.