UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Federated Department Stores, Inc. v. Commissioner

426 F.2d 417 (6th Cir. 1970) · Decided May 26, 1970

SUMMARY

The Sixth Circuit considers two federal income-tax issues involving Federated Department Stores, Inc. First, it holds that the taxpayer’s pre-1964 financing arrangements differed materially from its 1964 sale of accounts receivable, so no accounting-method change under Internal Revenue Code § 481 occurred. Second, it affirms that payments from Sharpstown Realty Company to induce Federated to build and operate a department store were nontaxable contributions to capital under § 118.

CASE DETAILS

COURT	United States Court of Appeals for the Sixth Circuit
WRITING FOR THE COURT	Combs, Circuit Judge; Combs; McAllister; McCree
JURISDICTION	Federal
DECIDED	May 26, 1970
DISPOSITION	affirmed
PROCEDURAL POSTURE	Cross-appeals from the United States Tax Court's redetermination of federal income-tax deficiencies.
STANDARD OF REVIEW	The Tax Court's findings of fact and factual inferences drawn from undisputed facts are reviewed for clear error.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Federated Department Stores, Inc., Commissioner of Internal Revenue v. Commissioner of Internal Revenue, Federated Department Stores, Inc.

TOPICS

income tax · corporate tax · tax deficiency · tax court procedure

PRACTICE AREAS

federal income taxation · corporate taxation · tax accounting

QUESTIONS PRESENTED

1. Whether Federated's pre-1964 bank financing arrangements were sufficiently similar to its 1964 sale of accounts receivable to constitute a change in accounting method requiring adjustments under Internal Revenue Code section 481(a).
2. Whether payments made by Sharpstown Realty Company to induce Federated to construct and operate a department store constituted contributions to Federated's capital excludable from gross income under Internal Revenue Code section 118.

HOLDINGS

1. The pre-1964 transactions were materially different from the 1964 sale of accounts receivable and therefore did not constitute a change of accounting under section 481(a).
2. Sharpstown's payments to Federated were contributions to capital and were therefore excludable from Federated's gross income under section 118.

KEY QUOTATIONS

> *"The narrow question presented is whether the payments received by taxpayer from Sharpstown were contributions to taxpayer's capital within the purview of Section 118."* (421)

> *"Under these circumstances, we agree with the Tax Court that any benefit expected to be derived by Sharpstown was so intangible as not to warrant treating its contribution as a payment to taxpayer for future services."* (421)

> *"The reference in the regulation to a governmental unit or civic group obviously is only one example of the applicability of Section 118 to a contribution made by a nonshareholder, and by express language is not intended to be exclusive of other possible applications."* (422)

FACTUAL BACKGROUND

Federated operated retail department stores and extended installment credit, reporting service-charge income ratably over the life of customer accounts under a longstanding accounting practice. In 1964, Federated sold most of its outstanding accounts receivable to First National Bank of Chicago, and the Commissioner required deferred service charges included in the sale price to be recognized in income at the time of sale. Federated also received payments from Sharpstown Realty Company to induce Federated to construct and operate a department store in Sharpstown's proposed shopping center; neither Sharpstown nor its shareholders had a proprietary interest in Federated.

PROCEDURAL HISTORY

The Commissioner determined income-tax deficiencies against Federated Department Stores for fiscal years ending February 2, 1963, and February 1, 1964. The Tax Court, based on stipulated facts, redetermined the deficiencies and ruled that deferred service charges arising from the 1964 sale of accounts receivable were includible in income, while payments received from Sharpstown Realty Company were excludable as contributions to capital under Internal Revenue Code section 118. Both Federated and the Commissioner appealed.

DISPOSITION

affirmed

CASES CITED

- Commissioner of Internal Revenue v. Duberstein, 363 U.S. 278, 80 S.Ct. 1190, 4 L.Ed.2d 1218 (1960)
- Brown Shoe Co. v. Commissioner of Internal Revenue, 339 U.S. 583, 70 S.Ct. 820, 94 L.Ed. 1081 (1950)