C.C. Bradley & Son, Inc. v. Commissioner, 2 T.C. 565 (1943)

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Under Section 397 of the Chandler Act (Bankruptcy Act), a debtor corporation that reacquires its property through a bankruptcy arrangement is liable for taxes that became owing by its receiver (including an equity receiver) during the receivership, even if the Commissioner did not file a claim during the receivership proceedings.

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Summary

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C.C. Bradley & Son, Inc. was in equity receivership. During the receivership, income tax deficiencies arose. The Commissioner did not file a claim for these taxes during the receivership. Subsequently, the company filed for a bankruptcy arrangement under Chapter 11 of the Bankruptcy Act and reacquired its assets. The Commissioner then sought to collect the tax deficiencies from the company. The Tax Court held that under Section 397 of the Chandler Act, the debtor corporation was liable for the taxes that became owing by the receiver, regardless of whether a claim was filed during the receivership.

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Facts

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C.C. Bradley & Son, Inc. was placed in equity receivership in 1932. The receivership was initiated because the company had assets exceeding its debts but could not meet its maturing obligations. The receivers operated the business under court authorization. During the tax years 1939 and 1940, while the company was in receivership, income tax deficiencies were incurred. In 1941, the company filed for an arrangement under Chapter 11 of the Bankruptcy Act. A plan was approved where unsecured creditors would be paid 15% in cash and debts contracted by the receivers would have priority. The Commissioner of Internal Revenue received notice of these proceedings. The receivers were discharged, and the company reacquired its assets. The Commissioner issued a deficiency notice in 1942 for the 1939 and 1940 tax years but had not filed any claim for these taxes during the receivership or the bankruptcy proceedings.r

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Procedural History

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The Commissioner determined income tax deficiencies for 1939 and 1940. C.C. Bradley & Son, Inc. petitioned the Tax Court, arguing it was not liable for taxes incurred during the receivership. The Tax Court ruled in favor of the Commissioner, holding the company liable for the taxes.r

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Issue(s)

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Whether, under Section 397 of the Chandler Act, a debtor corporation that reacquires its property through a bankruptcy arrangement is liable for taxes that became owing by its equity receiver during the receivership, even if the Commissioner did not file a claim during the receivership proceedings.r

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Holding

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Yes, because Section 397 of the Chandler Act explicitly states that taxes owing from a receiver of a debtor shall be assessed against, collected from, and paid by the debtor corporation after the confirmation of a plan of arrangement, regardless of whether the receiver was an equity receiver or a bankruptcy receiver.r

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Court’s Reasoning

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The Tax Court reasoned that Section 397 of the Chandler Act (now part of the

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Bankruptcy Act) was intended to ensure that the government could collect taxes that became due during the pendency of a receivership or bankruptcy proceeding. The court rejected the petitioner’s argument that the term

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