Seekonk Water Boat Co. v. Commissioner, 1941 WL 225 (T.C. 1941)

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When a corporation transfers assets to a shareholder during dissolution, the determination of whether a subsequent sale of those assets is taxable to the corporation or the shareholder depends on whether the corporation had already entered into a binding agreement to sell the assets prior to the transfer.

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Summary

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Seekonk Water Boat Co. dissolved and transferred its primary asset, a ship called the Willmoto, to its sole shareholder, Williams. Prior to the formal transfer of the ship but after initial steps toward dissolution, Williams, acting individually, negotiated and contracted to sell the Willmoto. The Tax Court addressed whether the gain from the sale of the ship was taxable to the corporation or to Williams individually. The court held that because the corporation had not entered into a binding agreement to sell the ship before its transfer to Williams, the sale was taxable to Williams individually and not to the corporation.

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Facts

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Seekonk Water Boat Co. (Seekonk) was a corporation with Williams as its sole shareholder. On March 25, the board of directors and Williams adopted resolutions to dissolve the corporation. On March 31, the dissolution documents were executed and mailed for filing. At this time, there were no negotiations for the sale of the Willmoto, the corporation’s primary asset. On April 1, Williams orally agreed to sell the Willmoto to an undisclosed principal. On April 2, a memorandum was created confirming the sale agreement; this mentioned that the bill of sale would be signed by either Seekonk or Williams individually. On April 8, the formal contract of sale was executed by Williams in his individual capacity. Title to the Willmoto was formally transferred from Seekonk to Williams on April 21. Williams then transferred the ship to the National Gypsum Co. on May 5. The purchase price was paid to Williams directly.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Seekonk's income tax, arguing that the gain from the sale of the Willmoto was taxable to the corporation. Seekonk petitioned the Tax Court for a redetermination of the deficiency.

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Issue(s)

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1. Whether the gain from the sale of the Willmoto is taxable to Seekonk Water Boat Co. or to Williams individually.

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2. Whether the net income realized from the operation of the vessel after March 31, 1941, was taxable to Seekonk.

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Holding

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1. No, the gain is taxable to Williams individually because Seekonk had not entered into a binding agreement to sell the ship before its transfer to him.

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2. Yes, the net income from the vessel's operation until April 21, 1941, is taxable to Seekonk because the ship's title remained with the corporation until that date.

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Court's Reasoning

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The court distinguished this case from cases where a corporation negotiated a sale and then transferred the property to its stockholders who merely consummated the transaction. In those cases, the sale is attributed to the corporation. The court reasoned that in those cases the stockholders are

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