***3 T.C. 1002 (1944)***

A sale of property is taxable to a corporation only if the corporation had already negotiated the sale and was contractually bound to it before distributing the property to its shareholders in liquidation.

## Summary

George T. Williams, the sole stockholder of Seekonk Corporation, contracted to sell a ship individually while the corporation was in liquidation. The Tax Court addressed whether the gain from the ship's sale and related income were taxable to the corporation or to Williams individually. The court held the sale was by Williams as an individual, not as an agent of the corporation because the corporation was not already bound to the sale when the liquidation began. The gain was not taxable to the corporation, but income earned before the asset distribution was corporate income.

## Facts

Seekonk Corporation, owned solely by George T. Williams, primarily chartered a motor ship, the "Willmoto." After failed attempts to sell the ship to foreign buyers due to Maritime Commission disapproval, Williams decided to liquidate the corporation based on advice that this would reduce income and excess profits taxes. While in the process of liquidation, Williams, as an individual, negotiated and contracted to sell the "Willmoto" to National Gypsum Co.

## Procedural History

The Commissioner of Internal Revenue determined deficiencies in Seekonk Corporation's income tax and declared value excess profits tax, holding Williams, as transferee of the corporate assets, liable. Williams contested the deficiency calculation, arguing the gain from the ship sale was taxable to him individually, not the corporation. The Tax Court reviewed the Commissioner's determination.

## Issue(s)

1. Whether the gain from the sale of the "Willmoto" is taxable to Seekonk Corporation or to Williams individually.

2. Whether the net income realized from the operation of the "Willmoto" after March 31, 1941, is taxable to Seekonk Corporation or to Williams individually.

## Holding

1. No, because Williams contracted to sell the ship in his individual capacity after the corporation had already begun the process of liquidation and was not already obligated to make the sale.

 

2. Yes, because the income was earned before the formal transfer of the ship's title to Williams.

## Court's Reasoning

The court reasoned that the key factor was whether the corporation was already bound by a contract to sell the "Willmoto" before the liquidation process began and the asset was distributed to Williams. The court found that the resolutions to dissolve the corporation were adopted on March 25th, and documents for dissolution were executed by March 31st. Negotiations for the sale did not begin until April 1st, after the corporation had already taken steps to dissolve. The court distinguished this case from situations where a corporation negotiates a sale and only then transfers the property to its stockholders, who merely act as conduits. Here, Williams contracted to sell the ship as an individual when the corporation was in the process of dissolving. The court emphasized that Williams intended to sell the ship individually, noting the handwritten notation "Price $655,000, net to seller George T. Williams." Since the corporation was not already bound to sell the ship, Williams's sale was an individual transaction. Regarding income from the ship's operation, the court found that the formal title transfer occurred on April 21st. Therefore, income earned before this date was properly taxable to the corporation.

## Practical Implications

This case clarifies the tax implications of asset sales during corporate liquidations. It provides that a corporation is not taxed on gains from the sale of assets distributed to shareholders in liquidation if the sale was not pre-negotiated or contractually obligated by the corporation before liquidation began. Attorneys advising on corporate liquidations must carefully document the timeline of dissolution and asset sales to ensure proper tax treatment. The case illustrates the importance of timing and intent in determining whether a sale is attributed to the corporation or the individual shareholder. Later cases may distinguish Williams based on more extensive corporate involvement in pre-liquidation sale negotiations.