3 T.C. 1082 (1944)

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A liquidating distribution qualifies as a ‘complete liquidation’ under Section 115(c) of the Internal Revenue Code if made pursuant to a bona fide plan specifying completion within three years, even if actual completion extends beyond that period due to unforeseen circumstances.

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Summary

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Mary Dupont Faulkner received liquidating distributions from Chesapeake Corporation in 1938 and 1939. The corporation’s stockholders had approved a plan for complete liquidation within three years from December 31, 1938. Due to a later-asserted, substantial federal tax liability against the corporation, the liquidation extended beyond the three-year window. The Tax Court addressed whether these distributions qualified as a complete liquidation under Section 115(c) of the Internal Revenue Code, which would allow Faulkner to treat the gains as long-term capital gains. The court held that the distributions did qualify, as the plan specified liquidation within three years, regardless of the actual completion date.

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Facts

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1. In 1931, Faulkner purchased 100 shares of The Chesapeake Corporation stock for $3,140.r
2. From December 19, 1938, to December 7, 1939, she received $4,766.50 in cash and securities as liquidating distributions.r
3. On November 28, 1938, stockholders approved a plan to completely liquidate the corporation within three years from December 31, 1938; the first distribution occurred on December 19, 1938.r
4. Approximately 80% of the assets were distributed before December 31, 1939.r
5. The liquidation was delayed due to a proposed additional federal tax assessment of $6,712,470, which wasn’t settled until July 10, 1942.r

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Procedural History

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1. Faulkner filed her 1939 tax return with the Collector of Internal Revenue for Massachusetts.r
2. The Commissioner of Internal Revenue determined a deficiency, claiming the gains were short-term capital gains.r
3. Faulkner petitioned the Tax Court, arguing for long-term capital gain treatment.r

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Issue(s)

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Whether liquidating distributions received by Faulkner in 1938 and 1939 constituted

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