3 T.C. 1087 (1944)

A good faith plan for corporate liquidation under Section 115(c) of the Revenue Act of 1938, which specifies a completion deadline, may still qualify as a complete liquidation despite failing to meet the deadline if an unforeseen event makes timely completion impossible.

Summary

The case addresses whether a corporate liquidation qualifies as 'complete' under Section 115(c) of the Revenue Act of 1938, even when the liquidation extends beyond the initially planned deadline due to unforeseen circumstances. The petitioner, a stockholder, sought to treat profits from the liquidation as a long-term capital gain. The Tax Court held that the liquidation qualified as complete, reasoning that the corporation had adopted a good faith liquidation plan with a specified deadline, and an unforeseen tax claim made timely completion impossible. The court emphasized the good faith nature of the plan and distinguished it from situations where the delay was merely impractical, not impossible.

Facts

The petitioner held shares of Chesapeake Corporation stock.
In November 1938, stockholders approved a plan for Chesapeake's complete liquidation, to be completed by December 31, 1941.
The company made liquidating distributions to the petitioner in 1938 and 1939.
In March 1940, the petitioner sold his Chesapeake stock.
In September 1940, the Commissioner of Internal Revenue filed a substantial tax claim against Chesapeake, almost equaling its total assets.
The tax claim was settled in May 1942, and final distribution of assets occurred in December 1942, beyond the initially planned deadline.

Procedural History

The Commissioner determined a deficiency in the petitioner's income tax for 1939.
The petitioner challenged the deficiency in the Tax Court, arguing that the profits should be treated as a long-term capital gain, resulting from a complete liquidation.

Issue(s)

Whether a corporate liquidation plan, adopted in good faith with a specified completion deadline, qualifies as a 'complete liquidation' under Section 115(c) of the Revenue Act of 1938, when the liquidation is not completed within the specified timeframe due to an unforeseen event.

Holding

Yes, because the corporation adopted a good faith plan of complete liquidation

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calling for liquidating transfers to be completed within the periods set out in section 115 (c), and an unforeseen event occurred after the adoption of the plan which made the completion of the liquidating transfers impossible within the time called for by the plan.

Court's Reasoning

The court interpreted Section 115(c) of the Revenue Act of 1938, which defines 'complete liquidation.'
The court distinguished Section 115(c) from Section 112(b)(6)(D) of the same act, noting that the latter contains a strict requirement that liquidation be completed within three years, whereas Section 115(c) emphasizes the 'bona fide' nature of the liquidation plan.
The court noted that Congress deliberately avoided the inflexible time requirement appearing in section 112(b)(6)(D) when drafting section 115(c).
The court emphasized the unforeseen nature of the Commissioner's tax claim, which made timely completion impossible.
The court stated, "We conclude that where, as in the instant case, there is adopted in good faith a plan of complete liquidation calling for liquidating transfers to be completed within the periods set out in section 115 (c), and an unforeseen event occurs after the adoption of the plan which makes the completion of the liquidating transfers impossible within the time called for by the plan, there is, nevertheless, a compliance with the provisions of section 115 (c)."
The court explicitly limited its holding to situations where completion within the statutory period is impossible, not merely impractical.

Practical Implications

This case establishes a 'good faith' exception to the strict deadline requirements for complete liquidations under Section 115(c) of the Revenue Act of 1938.
It provides guidance for analyzing similar cases involving corporate liquidations delayed by unforeseen events, such as significant tax claims or litigation.
The case highlights the importance of documenting the good faith nature of the liquidation plan and the unforeseen circumstances that caused the delay.
Attorneys should advise clients to maintain records demonstrating the initial intent to comply with the statutory deadlines and the external factors that prevented timely completion.
Later cases may apply or distinguish this ruling based on the specific facts and circumstances, particularly regarding the impossibility versus impracticality of meeting the original deadline.

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