4 T.C. 208 (1944)

A plan to liquidate a corporation 'immediately,' where the corporate assets are readily marketable and the plan is feasible, satisfies the statutory requirement of specifying a time within which the liquidation is to be completed for long-term capital gain treatment.

Summary

Knox concerned whether gains from corporate distributions qualified as long-term capital gains under Section 115(c) of the Internal Revenue Code. The Tax Court held that a plan for 'immediate liquidation' satisfied the statutory requirement of specifying a time frame for complete liquidation, despite the lack of a fixed deadline in the formal resolutions. The Court emphasized that the intent for immediate action, coupled with the feasibility of the plan and actual liquidation within a reasonable timeframe, met the statute's purpose.

Facts

David and Gertrude Rose, holding over two-thirds of a corporation's stock, wanted to liquidate their shares quickly. A meeting was held on September 10, 1940, where the directors resolved to sell corporate assets. The corporation sold its assets within two months. The final distribution to shareholders was delayed until June 15, 1942, pending resolution of escrow notes from the sale. The Commissioner argued that the lack of a specified liquidation timeframe meant the gains should be treated as short-term capital gains, taxable at a higher rate.

Procedural History

The Commissioner determined that the gain was short term and taxable to the extent of 100 percent. The Taxpayer petitioned the Tax Court, arguing that the gain was a long-term capital gain, recognized only to the extent of 50 percent. The Tax Court ruled in favor of the taxpayer, finding that the distribution was made pursuant to a plan requiring immediate liquidation.

Issue(s)

Whether a plan for 'immediate liquidation' of corporate assets, without a fixed completion date, constitutes specifying a time within which the liquidation is to be completed as required by Section 115(c) of the Internal Revenue Code for treatment as a long-term capital gain.

Holding

Yes, because the intent for immediate liquidation, coupled with the feasibility of the plan and actual liquidation within a reasonable timeframe, satisfies the statutory requirement, even without a specified deadline in the formal resolutions. The Court

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noted that "a plan to liquidate immediately necessarily means that the liquidation will be undertaken at once."

Court's Reasoning

The Tax Court reasoned that while the formal resolutions lacked a specific timeframe, the testimony and actions of the directors and stockholders demonstrated a clear intent for immediate liquidation. The Court emphasized that liquidation is a question of fact, and the adoption or failure to adopt a formal resolution is not determinative. The Court considered the surrounding circumstances, including the shareholders' desire to liquidate quickly, the ready marketability of the assets, and the actual liquidation occurring within two months. The delay in final distribution was due to unresolved escrow notes, but the Court found the overall plan contemplated completion within the statutory period. The Court stated that, "It seems to us that a plan to liquidate immediately necessarily means that the liquidation will be undertaken at once."

Practical Implications

Knox provides guidance on interpreting the 'complete liquidation' requirements under tax law. It clarifies that the absence of a rigid timeline in formal liquidation plans is not necessarily fatal, as long as the intent for immediate liquidation is evident and the liquidation is carried out expeditiously. This decision emphasizes a practical, fact-based approach, considering the surrounding circumstances and actions of corporate actors. It suggests that tax advisors should document the intent and feasibility of immediate liquidation plans to support long-term capital gain treatment. Later cases may distinguish Knox based on differing factual scenarios, such as a lack of demonstrable intent for immediate liquidation or unreasonable delays in executing the plan.

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