Cooper Foundation v. Commissioner, 7 T.C. 387 (1946)

When a corporation liquidates and distributes assets to a stockholder who then sells those assets, the sale is attributed to the stockholder, not the corporation, if the stockholder negotiated the sale independently and the purchaser intended to deal only with the stockholder.

Summary

Cooper Foundation, a minority stockholder in Peerless, negotiated a sale of a lease and improvements to Miller. Peerless then liquidated, distributing the lease to Cooper, who completed the sale to Miller. The Commissioner argued that the sale was effectively by Peerless, making Peerless liable for taxes on the gain. The Tax Court disagreed, holding that because Cooper Foundation negotiated the sale independently and Miller only agreed to purchase the lease from Cooper, the sale was by Cooper, not Peerless. Therefore, Peerless was not liable for the tax.

Facts

Cooper Foundation was a minority stockholder in Peerless. Cooper Foundation negotiated with Fox Films and its subsidiary, Miller, to sell a lease and improvements owned by Peerless. The negotiations were conducted by Cooper Foundation acting in its own interest to prevent Miller from acquiring a competing lease. Miller agreed to purchase the lease from Cooper Foundation only if Cooper Foundation could acquire and transfer it. Peerless subsequently liquidated and distributed the lease to Cooper Foundation, which then sold it to Miller.

Procedural History

The Commissioner determined that Peerless was liable for taxes on the gain from the sale of the lease. Cooper Foundation, as transferee of Peerless' assets, was assessed the tax liability. Cooper Foundation petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether the sale of the Naftzger-Peerless lease and improvements to Miller was made by Peerless or by Cooper Foundation.

Holding

No, the sale was by Cooper Foundation because the negotiations were carried out exclusively by Cooper Foundation in its own interest, and Miller only agreed to purchase the lease from Cooper Foundation after it acquired the lease from Peerless.

Court's Reasoning

The Tax Court emphasized that the actualities of the sale govern. While the general rule is that a sale is attributed to the corporation when stockholders act merely as a conduit of title after the corporation has agreed to the sale, this case was different. The court found that Cooper Foundation, as a minority stockholder, acted independently and in its own interest. Miller never made an offer to or agreement with Peerless; its agreement was solely with Cooper Foundation. The court quoted from *George T. Williams, 3 T.C. 1002*, stating that "a stockholder can in no circumstances contract as an individual to sell property which he expects to acquire from the corporation." The court distinguished *Howell Turpentine Co.*, noting that in that case, the purchaser negotiated directly with the corporation and its majority stockholders, whereas here, the purchaser only dealt with Cooper Foundation.

Practical Implications

This case clarifies when a sale of assets following a corporate liquidation is attributed to the corporation versus the stockholders. It emphasizes the importance of analyzing the substance of the transaction, particularly who conducted the negotiations and with whom the purchaser intended to deal. Attorneys structuring corporate liquidations and asset sales must carefully document the negotiations to ensure that the intended party is recognized as the seller for tax purposes. Later cases have cited this case to distinguish factual scenarios where the corporation played a more active role in pre-liquidation sale negotiations. This case is particularly relevant when a minority shareholder independently negotiates the sale of assets prior to liquidation.