7 T.C. 1384 (1946)

A corporate distribution is considered 'in complete liquidation' for tax purposes only if made pursuant to a bona fide plan of liquidation with a specified timeframe, and a prior 'floating intention' to liquidate is insufficient.

Summary

The Tax Court addressed whether a distribution received by Harriman from Harriman Thirty in 1940 was a distribution in partial liquidation, taxable as a long-term capital gain. The IRS argued it was part of a series of distributions in complete cancellation of stock. Harriman contended no definite liquidation plan existed until 1940 due to a prior agreement. The court held for Harriman, finding that the 1940 distribution was part of a new, complete liquidation plan initiated that year, and thus taxable as a long-term capital gain because there was no specified timeline prior to the actual plan. A 'floating intention' to liquidate is not sufficient for prior distributions to be considered part of a complete liquidation.

Facts

- Harriman Thirty was in the process of reducing its assets to cash.
- Prior to 1940, distributions were made to stockholders at intervals as amounts accumulated.
- Harriman Fifteen had a contract to guarantee certain assets of Harriman Thirty, which prevented a definite liquidation plan until 1940.
- In 1940, the guarantor was released, and Harriman Thirty then created a plan of complete liquidation.
- A distribution was made to Harriman in 1940 pursuant to this new plan.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Harriman's income tax. Harriman petitioned the Tax Court for a redetermination. The Tax Court reviewed the case and issued its opinion, holding in favor of Harriman.

Issue(s)

1. Whether the distribution received by Harriman in 1940 was one of a series of distributions in complete cancellation or redemption of all or a portion of Harriman Thirty's stock, as defined in the statute regarding partial liquidation?
2. Whether the 1940 distribution was part of an integrated plan of liquidation that included distributions in 1934, 1937, and 1939?

Holding

1. No, because the plan of liquidation was created in 1940, and the distribution was made pursuant to that plan, separate from prior distributions.

© 2025 SCOTUSreports.com. All rights reserved.

2. No, because the contractual burden on Harriman Fifteen prevented Harriman Thirty from formulating a complete liquidation plan until 1940.

Court’s Reasoning

The court reasoned that the crucial factor was the obligations of Harriman Fifteen to Harriman Thirty, which prevented a definite plan of liquidation until 1940. While Harriman Thirty had a general intent to liquidate its assets, this ‘floating intention’ was not equivalent to the ‘plan of liquidation’ required by the statute. The court distinguished this case from *Estate of Henry E. Mills*, where the distributions were made according to an original plan formulated earlier. Here, the events that formed the basis for the 1940 distribution occurred in that year. The court referenced *Williams Cochran, 4 T. C. 942*, noting that even if a corporation intends to liquidate as soon as certain stock is acquired, the plan must provide for completion within a specified time, and a time limit set after the stock is acquired cannot be retroactive. The court concluded, “The distribution made to the petitioner in 1940 in conformity with such resolution was in complete liquidation of his stock in Harriman Thirty and is taxable as a long term capital gain under section 115 (c), Internal Revenue Code.”

Practical Implications

This decision clarifies that for a corporate distribution to be considered part of a ‘complete liquidation’ for tax purposes, there must be a concrete, bona fide plan of liquidation with a defined timeline. A vague intention or ongoing process of reducing assets to cash is insufficient. This case informs how tax attorneys must advise clients regarding corporate liquidations, emphasizing the need for a well-documented plan with a specific timeframe to ensure distributions qualify for the intended tax treatment. It highlights that a later formalization of a plan cannot retroactively apply to distributions made before the plan’s adoption. Later cases applying this ruling would likely scrutinize the existence and definiteness of any liquidation plan at the time of distributions.

© 2025 SCOTUSreports.com. All rights reserved.