Inland Oil Co. v. Commissioner, 3 T.C. 1034 (1944)

A distribution qualifies as a complete liquidation, eligible for capital gains treatment, only if made pursuant to a bona fide plan of liquidation, evidenced by formal corporate action and documentation.

Summary

Inland Oil Co. distributed assets to its shareholders in 1941 and 1942. The taxpayers argued these distributions were part of a complete liquidation, allowing them to treat the gains as capital gains. The Tax Court ruled against the taxpayers, holding that the 1941 distributions did not qualify as part of a complete liquidation because there was no formal plan of liquidation adopted by the corporation at that time. The court emphasized the importance of contemporaneous documentation, such as corporate resolutions and Form 966, to demonstrate a bona fide plan of liquidation.

Facts

- Inland Oil Co. made distributions to its shareholders on June 27, 1941, November 5, 1941, and April 3, 1942.
- The shareholders sought to treat these distributions as part of a complete liquidation of the corporation, allowing them to recognize capital gains.
- The corporate resolutions in 1941 did not mention any plan of dissolution or complete liquidation.
- Form 966, required by the IRS to report corporate liquidations, was not filed in 1941.
- The April 1942 resolution was the first time reference was made to “a final liquidation and distribution” of Inland.
- A properly filled-out Form 966 was filed in 1942.

Procedural History

The Commissioner of Internal Revenue determined that the 1941 distributions were not part of a complete liquidation and assessed a deficiency. Inland Oil Co. appealed to the Tax Court, which upheld the Commissioner’s determination.

Issue(s)

Whether the distributions of June 27, 1941, November 5, 1941, and April 3, 1942, were separate transactions, each constituting a dividend “in partial liquidation,” or were parts of a series of distributions in complete liquidation under Section 115 of the Internal Revenue Code.

Holding

No, the 1941 distributions were not part of a complete liquidation because the corporation did not adopt a bona fide plan of liquidation in 1941 as required by the

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statute. The 1942 resolution could not be applied retroactively to 1941.

Court's Reasoning

The court emphasized that to qualify as a complete liquidation, distributions must be made "in accordance with a bona fide plan of liquidation." The court found no evidence of such a plan in 1941. The absence of any mention of a plan of dissolution in the 1941 corporate resolutions, the failure to file Form 966 in 1941, and the first reference to liquidation in the 1942 resolutions, all indicated that no formal plan existed in 1941.

The court stated: "The case is to be decided by what was actually done by the corporation, not by the unconvincing or nebulous intention of some of the interested stockholders. The 1942 resolution can not be applied retroactively to 1941."

The court acknowledged the taxpayers' testimony but found that "such self-serving testimony can not be held to overcome the logical and reasonable inference to be drawn from such record, nor can it supply the missing steps in the formal procedure."

The court concluded that the "absence of records in harmony with the statutory requirements is significant and confirms our conclusion that no bona fide plan of liquidation existed."

Practical Implications

This case highlights the importance of formal documentation and contemporaneous record-keeping when undertaking a corporate liquidation. It demonstrates that a taxpayer's intent, even if genuine, is insufficient to meet the requirements for complete liquidation treatment if not supported by formal corporate action. Attorneys advising clients on corporate liquidations must ensure that a formal plan is adopted and documented through corporate resolutions, regulatory filings (such as Form 966), and other relevant records.

The case reinforces the principle that tax consequences are determined by what a corporation actually does, not just the subjective intent of its shareholders. This case continues to be cited for the proposition that a plan of liquidation must be formally adopted and documented to be recognized for tax purposes.

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