Fairfield Plaza, Inc. v. Commissioner, 17 T.C. 1108 (1952)

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A corporation cannot avoid corporate tax liability on the sale of its property by liquidating and distributing the property to its shareholders who then complete the sale when the corporation actively negotiated the sale prior to liquidation.

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Summary

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Fairfield Plaza, Inc. sought to avoid corporate tax on the sale of a building by distributing the property to its shareholders, who then completed the sale. The Tax Court held that the sale was in substance a sale by the corporation and thus taxable to the corporation. The court reasoned that the corporation, through its president, Hyman, conducted all the crucial negotiations, including the escrow agreement, before any steps were taken toward liquidation. This decision aligns with the principle established in Commissioner v. Court Holding Co., emphasizing that a corporation cannot escape tax liability when it actively participates in arranging the sale of its assets, even if the formal transfer occurs after liquidation.

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Facts

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Fairfield Plaza, Inc. owned property that its president, Hyman, negotiated to sell. Hyman, though not a stockholder, handled all sale negotiations. The corporation continued to hold title during these negotiations, including the execution of the escrow agreement. The shareholders argued that they legally obligated themselves to convey the property only after acquiring it. No steps were taken towards liquidating the corporation until after the sale terms were substantially agreed upon.

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Procedural History

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The Commissioner of Internal Revenue determined that the gain from the sale of the property was taxable to Fairfield Plaza, Inc. The Tax Court reviewed the Commissioner's determination.

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Issue(s)

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Whether the sale of the property should be attributed to the corporation, making it liable for the tax on the gain, or to the shareholders, thus avoiding corporate tax liability.

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Holding

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Yes, because the corporation, through its president, actively negotiated the sale of the property before any steps were taken to liquidate the corporation, making the sale, in substance, a sale by the corporation.

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Court's Reasoning

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The court relied on *Commissioner v. Court Holding Co.*, emphasizing that the sale was effectively arranged while the corporation held title. Hyman, as president, negotiated the sale on behalf of the corporation, not the stockholders. The court distinguished this case from situations where liquidation precedes sale negotiations. Even under a dissenting view presented in another case (*Fairfield Steamship Corporation*), the facts here were stronger for the Commissioner. The court emphasized that no steps towards liquidation occurred until the sale was conclusively agreed to. The court cited *Trippett v. Commissioner*, noting that stockholders cannot treat corporate property as their own until the corporation is properly dissolved and liquidated. The court stated, "The actual transaction started out and ended up by being a sale of the corporation's property negotiated through its chief officer, consented to, as it had to be, by its stockholders, and cast in a more complicated and indirect form from motives concerning which we find it unnecessary to speculate. The resulting gain was that of the corporate petitioner,

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and the tax must be determined accordingly."

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