11 T.C. 789 (1948)

A sale of corporate assets is attributed to the stockholders, not the corporation, when the sale occurs after the corporation has taken definitive steps to liquidate in kind and the stockholders have assumed contractual obligations independently of the corporation.

Summary

The Steubenville Bridge Co. was assessed a deficiency in income and excess profits taxes. The Commissioner argued that the sale of the bridge to West Virginia was effectively made by the corporation, making it liable for the capital gains tax. The Tax Court disagreed, finding that a syndicate's purchase of the corporate stock, subsequent liquidation of the company, and then the sale of the bridge to West Virginia should be taxed at the shareholder level, not the corporate level because the corporation did not take steps to sell the bridge prior to liquidation. This case clarifies the circumstances under which a sale of assets is attributed to the corporation versus its stockholders during liquidation.

Facts

The Steubenville Bridge Co. operated a toll bridge. Facing financial pressure from a competing bridge, the company considered selling its assets. A syndicate obtained options to purchase all of Steubenville's stock. The syndicate then contracted to sell the bridge to the State of West Virginia. The syndicate exercised its options, purchased all the corporate stock, elected new officers and directors, liquidated the company by distributing the bridge assets to a syndicate member (Samuel Biern, Jr.), and then dissolved the corporation. Biern, Jr. then transferred the bridge to West Virginia.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in income and declared value excess profits taxes against the Steubenville Bridge Co. and asserted transferee liability against the stockholders. The Tax Court consolidated the proceedings for hearing and opinion.

Issue(s)

1. Whether the series of acts performed by stockholders of the Steubenville Bridge Co. prior to the sale of all of the stock to a syndicate, and the immediate liquidation of the company, with the distribution of its assets in liquidation to a syndicate member who then sold the assets to the State of West Virginia, constituted a sale of those assets to West Virginia by the Steubenville Bridge Co.?
2. If the sale to West Virginia was made by the corporation, did Steubenville Bridge Co. realize a profit from the sale?

© 2025 SCOTUSreports.com. All rights reserved.

3. Did the former stockholders of the Steubenville Bridge Co. incur transferee liability when they sold their stock prior to the dissolution and liquidation of the company?

Holding

1. No, because the sale to West Virginia was not made by the Steubenville Bridge Co. The sale occurred after the corporation liquidated and distributed its assets to the shareholders.
2. The court did not address this issue because it found the corporation did not make the sale.
3. No, because the corporation did not make the sale of the bridge, so the former stockholders did not receive assets from a corporate sale for which they would owe taxes.

Court's Reasoning

The Tax Court emphasized that a corporation can liquidate and distribute assets in kind to its stockholders. The critical question is who actually made the sale. Citing *Court Holding Co.*, the court acknowledged that a sale negotiated by corporate officers before liquidation, but formally executed by stockholders after liquidation, is still attributable to the corporation. However, the court distinguished this case. The court found that the stockholders of Steubenville, prior to the sale of the stock, had taken no common action that could be construed as a step in the sale of the bridge, or that could be construed to show unity to sell the bridge. Importantly, the syndicate had no connection to the corporation until *after* the contract for sale of the bridge was made. The court emphasized that the members of the syndicate did not become connected with the company until after the options to sell the company to West Virginia had been executed. It found that the syndicate took legally recognized steps to procure the assets of the corporation by obtaining corporate stock, and then properly initiated the liquidation process after taking control of the company.

Practical Implications

This case provides guidance on distinguishing between a corporate sale and a shareholder sale during liquidation. Attorneys should carefully analyze the timing of negotiations, the parties involved, and the steps taken to liquidate the corporation. If the corporation actively negotiates the sale before liquidation, the sale is likely attributable to the corporation. If, however, the stockholders independently negotiate the sale after the corporation adopts a plan of liquidation in kind, the sale is likely attributable to the stockholders. This distinction has significant tax implications, impacting which entity is liable for capital gains taxes. Later cases would cite this case for the principle that intent of shareholders to sell assets received in liquidation is insufficient to attribute the sale to the corporation if steps are taken to liquidate the company first.

© 2025 SCOTUSreports.com. All rights reserved.