12 T.C. 197 (1949)

A corporation’s taxable year covers twelve months if it remains in existence and retains valuable claims, even if it ceases business operations before the year’s end.

Summary

Union Bus Terminal, Inc. disputed the Commissioner’s determination that its excess profits net income for 1943 should be computed based on a short taxable year. The company had transferred its business operations to a partnership mid-year but maintained assets. The Tax Court held that because the corporation remained in existence throughout its fiscal year and retained assets, its income should be computed on a 12-month basis, aligning with the Fifth Circuit’s decision in *United States v. Kingman*.

Facts

Union Bus Terminal, Inc. operated a bus terminal in Shreveport, Louisiana. On August 1, 1943, the company transferred its lease, furniture, and fixtures to W.H. Johnson and R.F. Hemperly, who formed a partnership to continue the business. After the transfer, Union Bus Terminal, Inc. retained an excess profits postwar refund bond and an account receivable from W.H. Johnson. The corporation conducted no business after July 31, 1943. A plan to dissolve the corporation was adopted on January 7, 1946, and formal dissolution occurred on July 9, 1946.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Union Bus Terminal, Inc.’s excess profits tax for the 1943 fiscal year, asserting that the company’s income should be annualized based on a short taxable year. The Tax Court disagreed, holding that the company’s income should be computed on a full fiscal year basis.

Issue(s)

Whether Union Bus Terminal, Inc.’s excess profits net income for its fiscal year 1943 should be computed based on a short taxable year (May 1 to July 31, 1943) under Section 711(a)(3) of the Internal Revenue Code, or whether it should be computed on the basis of its full fiscal year.

Holding

No, because the corporation remained in existence throughout its fiscal year and retained assets in the form of an account receivable and an excess profits postwar refund bond, thus not qualifying for a short taxable year computation under Section 711(a)(3) of the Internal Revenue Code.

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Court’s Reasoning

The Tax Court relied on the Fifth Circuit’s decision in *United States v. Kingman*, which involved similar facts. The court emphasized that a corporation’s taxable year covers twelve months if it remains in existence and retains valuable claims. The court noted that Union Bus Terminal, Inc. did not dissolve during the taxable year and retained assets, distinguishing it from cases where corporations had completely liquidated or dissolved during the year. The court quoted *Kingman*, stating that under the Commissioner’s regulations, the taxable year is not short if the corporation continues in existence, does not dissolve, and retains valuable claims. The court acknowledged that while reducing credits proportionally for income cessation might seem reasonable, the existing law, as defined by Congress and the Commissioner, dictates that annualization under Section 711(a)(3) only applies to short taxable years, which this was not.

Practical Implications

This case clarifies that a corporation’s taxable year is not automatically shortened when it ceases business operations. The key factors are whether the corporation formally dissolves and whether it retains valuable assets. Legal practitioners should analyze whether a corporation maintains any claims or assets post-operational shutdown to determine if a short-year tax calculation is appropriate. This ruling impacts how tax professionals advise corporations undergoing liquidation or significant operational changes, emphasizing the importance of formal dissolution and asset disposition in determining the taxable year length.

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