14 T.C. 52 (1950)

A corporation can avoid tax liability on the sale of its assets if it distributes the assets to its shareholders in a genuine liquidation before the shareholders independently decide to sell the assets, even if a sale is contemplated during the liquidation process.

Summary

Amos L. Beaty & Co. dissolved and distributed its assets to its shareholders. The shareholders, acting independently, then sold the assets. The Commissioner of Internal Revenue argued that the sale should be attributed to the corporation, resulting in a corporate tax liability. The Tax Court held that the sale was made by the shareholders, not the corporation, because the corporation had genuinely liquidated and the shareholders made the decision to sell independently after the liquidation process began. The court emphasized that the corporation did not actively negotiate the final sale terms; instead, a shareholder pursued the sale on behalf of the other shareholders after the liquidation was initiated.

Facts

Amos L. Beaty & Co. was an oil and gas business. In late 1945, a potential buyer expressed interest in the company's oil properties. The corporation's directors, concerned about the tax implications of a corporate sale, resolved not to sell the assets. Instead, they initiated a plan to liquidate the corporation and distribute the assets to the shareholders. A shareholder, Burch, learned of the liquidation and, seeking to maximize the value for himself and a major shareholder, began negotiating a sale of the assets on behalf of the shareholders after the liquidation process was underway. The corporation then distributed the assets in kind to the shareholders, who then sold them to a third party.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the corporation's income tax, arguing the sale of the oil and gas properties should be attributed to the corporation. Amos L. Beaty & Co. petitioned the Tax Court for a redetermination of the deficiencies.

Issue(s)

1. Whether the gain from the sale of the oil and gas properties should be taxed to the corporation, or whether the sale was made by the shareholders after a genuine liquidation.

Holding

1. No, the gain from the sale is not taxable to the corporation because the sale

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was made by the shareholders after a genuine liquidation of the corporation.

Court’s Reasoning

The court distinguished this case from *Commissioner v. Court Holding Co.*, where the corporation had already negotiated the terms of the sale before liquidation. Here, the corporation resolved not to sell and instead distributed the assets to its shareholders. The court emphasized that the corporation referred all purchase inquiries to Burch, a shareholder, after the decision to liquidate. Burch, acting independently, negotiated the sale on behalf of the shareholders, not as an agent of the corporation. The court noted, “Petitioner’s plan was to distribute the property in kind in connection with dissolution proceedings to escape taxation, rather than to sell the assets with tax liability to it. Petitioner had that right of choice under the statute.” The court found the liquidation to be genuine, not a sham, and that the shareholders acted on their own account. The court emphasized that

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