16 T.C. 1363 (1951)

Under the accrual method of accounting, income is recognized when the right to receive it is fixed and the amount is reasonably ascertainable, not necessarily when cash is received.

Summary

Henry Hess Co. v. Commissioner addresses the timing of income recognition for an accrual-basis taxpayer when the government requisitioned a steamship. The Tax Court held that the steamship company did not have to recognize gain in the year of requisition because the amount of compensation was not reasonably ascertainable at that time due to disputes over valuation methods. However, payments received in later years were taxable to the dissolved corporation, as it continued in existence for winding up its affairs, and the shareholders were liable as transferees. The court also addressed the company's liability for declared value excess-profits tax.

Facts

Christenson Steamship Company, an accrual-basis taxpayer, had one of its steamships, the S.S. Jane Christenson, requisitioned for title by the War Shipping Administration (WSA) in November 1942. The company dissolved shortly after the requisition, distributing its assets, including the claim for compensation for the ship, to its sole shareholder, Sudden & Christenson, which in turn distributed its assets to its shareholders, including the petitioners. A dispute arose between the WSA and the Comptroller General regarding the valuation of requisitioned vessels, creating uncertainty about the amount of compensation Christenson would receive. Payments for the ship were made in 1943 and 1944.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in income, declared value excess-profits, and excess profits taxes against Christenson Steamship Company for 1942, 1943, and 1944, and asserted transferee liability against the petitioners. The petitioners contested these determinations in the Tax Court.

Issue(s)

1. Whether Christenson Steamship Company realized gain in 1942 from the requisition of its steamship.
2. Whether Christenson Steamship Company realized taxable gain in 1943 and 1944 when payments were received for the requisition.
3. Whether the petitioners are liable as transferees for any tax deficiencies of Christenson Steamship Company for 1943 and 1944.
4. Whether Christenson Steamship Company is liable for declared value excess-profits tax for 1943 and 1944.

© 2025 SCOTUSreports.com. All rights reserved.

Holding

1. No, because the amount of just compensation was not reasonably ascertainable in 1942.
2. Yes, because the corporation, though dissolved, continued in existence for winding up its affairs and received the payments.
3. Yes, because the petitioners received assets from Christenson Steamship Company and Sudden & Christenson, making them liable as transferees.
4. Yes, for 1943 but not for 1944; the company was considered to be "carrying on or doing business" during part of 1943 but not in 1944.

Court's Reasoning

The Tax Court relied on *Luckenbach Steamship Co.* to conclude that no gain was realized in 1942 because the amount of compensation was not reasonably ascertainable due to the dispute between the WSA and the Comptroller General over valuation methods. The court emphasized that while the Fifth Amendment guarantees just compensation, this doesn't automatically mean the amount is ascertainable. Regarding 1943 and 1944, the court found that under California law, a dissolved corporation continues to exist for winding up its affairs. The corporation received payments in its name, distributed the proceeds, and executed documents, demonstrating its continued existence for tax purposes. The court cited *Commissioner v. Court Holding Co.* to support the proposition that a corporation cannot avoid taxes by transferring property to shareholders who then complete a transaction that the corporation itself initiated. Finally, the court determined that petitioners were liable as transferees because they received assets from the corporation, leaving it without funds to pay its tax liabilities. The court distinguished the criteria for determining whether the company was "carrying on or doing business" for purposes of the declared value excess-profits tax, finding it was only doing so during part of 1943.

Practical Implications

This case clarifies the application of the accrual method of accounting in situations where the right to receive income is fixed, but the amount is uncertain. It emphasizes that a reasonable estimate is required for accrual, and disputes over valuation can prevent income recognition. The case also highlights that dissolved corporations can still be subject to tax on income received during the winding-up process. It informs tax practitioners to examine state law to determine the extent to which a corporation continues to exist after dissolution. The case also serves as a reminder of the transferee liability rules, which can hold shareholders responsible for a corporation's unpaid taxes when they receive assets from the corporation. Later cases may cite this case to argue about whether an amount was reasonably ascertainable in a given tax year.

© 2025 SCOTUSreports.com. All rights reserved.