16 T.C. 1489 (1951)

A corporation holding bare legal title to real property, without engaging in any independent business activities, is not subject to income tax on the property's sale; the income is attributable to the equitable owner.

Summary

John Mulligan, as transferee, contested the Commissioner's assessment of tax deficiencies against Freeminstreet Company, Inc., arguing that the corporation merely held bare legal title to property equitably owned by his father's estate. The Tax Court ruled in favor of Mulligan, holding that because Freeminstreet served only as a nominal titleholder and conducted no independent business, the income from the property's sale was taxable to the estate, not the corporation. Consequently, Mulligan was not liable as a transferee of a tax-deficient corporation. The court emphasized that the corporation undertook no independent activities and acted solely as a conduit, with all financial transactions managed directly by the estate.

Facts

Thomas Mulligan owned all the stock of Freeminstreet Company, Inc., which held title to three real properties. Upon his death, his son, John Mulligan, became the administrator of his estate. The Surrogate's Court directed that the Freeminstreet stock be transferred to Mulligan as administrator, but the properties remained titled under Freeminstreet for administrative convenience. Mulligan managed the properties, depositing rent into the estate's bank account, and paying all expenses from the same account with the approval of the Surrogate's Court. In 1945, the properties were sold, and the proceeds were deposited into the estate's account. The corporation held no assets after the sale, and no separate corporate bank account or books were maintained.

Procedural History

The Commissioner of Internal Revenue assessed income and excess-profits tax deficiencies against Freeminstreet Company, Inc. The Commissioner then determined that John Mulligan was liable as a transferee of the corporation's assets. Mulligan appealed to the Tax Court, arguing that the income from the property should be attributed to the estate, not the corporation. The Tax Court ruled in favor of Mulligan, finding no basis for transferee liability.

Issue(s)

Whether income resulting from the sale of real property held in the name of a corporation is taxable to that corporation when its only function is to serve as a record owner for the convenience of an estate.

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Holding

No, because the corporation served merely as a convenient means of holding title to the real property owned by the estate and did not engage in any independent business activities.

Court’s Reasoning

The court reasoned that the corporation served merely as a convenient means of holding title to the real property owned by the estate. It cited precedents such as *Archibald R. Watson, 42 B.T.A. 52*, emphasizing that a corporation holding bare legal title, without more, is insufficient to justify taxing income to the corporation. The court noted that Freeminstreet undertook no independent activities and acted solely as a conduit, with all financial transactions managed directly by the estate under the supervision of the Surrogate’s Court. The court also rejected the Commissioner’s estoppel argument, finding that no tax advantage was gained by the corporation’s existence, and the statute of limitations had not run against the estate. As the corporation owed no tax, no transferee liability could attach to Mulligan.

Practical Implications

This decision clarifies that merely holding legal title to property does not automatically subject a corporation to income tax liability if the corporation lacks genuine business activity and serves only as a nominal titleholder. Attorneys should analyze the substance of a corporation’s activities, not just its formal ownership, to determine tax liabilities. This case is particularly relevant in estate planning and situations where property is held in corporate form for convenience. Later cases have cited *Mulligan* to support the principle that the economic substance of a transaction, rather than its form, governs tax consequences, especially where a corporation is a mere conduit or agent.

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