17 T.C. 874 (1951)

A corporation’s taxable year begins on the date of its legal incorporation, not when preliminary business activities are conducted by prospective incorporators before the charter is granted.

Summary

Ajax Engineering Corp. disputed the IRS’s determination of its first taxable year. The corporation argued that its taxable year began in 1941 when significant pre-incorporation activities occurred, which would subject it to lower tax rates under the Revenue Act of 1941. The Tax Court disagreed, holding that the taxable year commenced on February 7, 1942, the date the corporation’s charter was granted. The court reasoned that pre-incorporation activities, even if substantial, do not equate to the corporation’s existence for tax purposes, especially when those activities are not demonstrably conducted in the corporation’s name or on its behalf.

Facts

In 1941, individuals agreed to incorporate Ajax Engineering Corp. if they secured an order from Amtorg Trading Corporation. Tama was hired as manager, an office was rented, draftsmen and other employees were employed, the Amtorg order was secured, furnaces were designed, and a factory was rented. However, neither the name of the petitioner nor the state of its incorporation was decided upon until sometime in December 1941. Orders for materials were placed in the name of Ajax Metal Company, not on behalf of the proposed corporation.

Procedural History

The Commissioner of Internal Revenue determined that Ajax Engineering Corp.’s taxable year began in 1942. Ajax Engineering Corp. petitioned the Tax Court, arguing its taxable year commenced in 1941. The Tax Court ruled in favor of the Commissioner, upholding the 1942 start date.

Issue(s)

Whether the petitioner’s first taxable year began in 1941, based on pre-incorporation business activities, or in 1942, the year the corporation’s charter was granted.

Holding

No, because the corporation did not legally exist until its charter was granted on February 7, 1942, and the pre-incorporation activities were not definitively conducted in the name or on behalf of the corporation.

Court’s Reasoning

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The Tax Court emphasized that a corporation comes into legal existence when its certificate of incorporation is filed. While the prospective incorporators undertook several business activities in 1941, the court found insufficient evidence that these actions were done by or on behalf of the petitioner. The court noted that the Amtorg order was not taken in the name of the incorporators or of the petitioner, and orders for materials were placed under the name of Ajax Metal Company. The court distinguished this case from *Camp Wolters Land Co. v. Commissioner*, where the incorporators explicitly held themselves out as a corporation and transacted business in the corporation's name. Here, the court concluded that the petitioner was

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