Powers Photo Engraving Co. v. Commissioner, 17 T.C. 393 (1951)

When a parent corporation receives assets from its wholly-owned subsidiary, the parent bears the burden of proving the transfer was a bona fide repayment of debt, rather than a distribution of assets that would subject it to transferee liability for the subsidiary's unpaid taxes.

Summary

Powers Photo Engraving Co. sought to avoid transferee liability for the unpaid tax deficiencies of its wholly-owned subsidiary, Electronic. The Commissioner argued that Powers, as the sole stockholder, received assets from Electronic after the tax liabilities had accrued, rendering Electronic insolvent. Powers contended that the transfer was primarily a repayment of loans, not a distribution of assets. The Tax Court held that Powers failed to prove the advances to Electronic were bona fide loans and thus was liable as a transferee for Electronic's unpaid taxes. The court emphasized that transactions between a parent and subsidiary are subject to close scrutiny and that the lack of formal loan documentation weakened Powers' claim.

Facts

- Powers Photo Engraving Co. (

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