17 T.C. 641 (1951)

A sale of assets negotiated and consummated wholly by the stockholders of a corporation after a genuine liquidation cannot be imputed to the corporation for tax purposes.

Summary

Doyle Hosiery Corporation liquidated and distributed its assets to its shareholders, who then sold those assets to a third party. The Commissioner of Internal Revenue argued that the sale was effectively made by the corporation before liquidation, making the corporation liable for capital gains taxes. The Tax Court, however, found that the sale was negotiated and completed by the shareholders after a genuine liquidation, following *United States v. Cumberland Public Service Co.*, and thus the corporation was not liable for the tax. This case clarifies the distinction between corporate sales and shareholder sales after liquidation for tax purposes.

Facts

Doyle Hosiery Corporation (Hosiery) was owned entirely by John J. Doyle, his wife, and daughter. Early in May 1945, a broker inquired about purchasing Hosiery's plant. Doyle initially considered selling the Hosiery stock. On June 7, Doyle sought legal advice on the tax consequences of selling the business. After being advised to liquidate Hosiery, Doyle indicated to Miller Hosiery Co. (Miller) that he would sell the assets after liquidation. On June 18, 1945, the corporation adopted a resolution to dissolve, and its assets were distributed to the shareholders in complete liquidation.

Procedural History

The Commissioner determined deficiencies against Doyle Hosiery Corporation, arguing that the sale of assets was made by the corporation, resulting in a capital gain. John J. Doyle also faced a deficiency assessment related to his individual income tax. The cases were consolidated in the Tax Court. The Tax Court ruled in favor of the petitioners, holding that the sale was made by the shareholders after liquidation, not by the corporation.

Issue(s)

Whether the sale of land, buildings, and machinery should be attributed to Doyle Hosiery Corporation, resulting in a capital gain to the corporation, or whether the sale was made by the former stockholders following a complete liquidation of the corporation.

Holding

No, the sale is not attributed to the corporation because the sale was negotiated and consummated by the stockholders after a genuine liquidation of the corporation. The Court distinguished this case from *Commissioner v. Court Holding Co.*, finding it more aligned with *United States v. Cumberland Public Service Co.*

Court's Reasoning

The Court emphasized that the key factual determination is whether the corporation actively participated in the sale before liquidation. The Court found that "prior to the adoption of the resolution to dissolve the Doyle Hosiery Corporation and the distribution of its assets to its stockholders, in liquidation, on June 18, 1945, that corporation did not consider, authorize, negotiate, or enter into any agreement for a sale of its assets." The Court distinguished this case from *Commissioner v. Court Holding Co.*, where the corporation had already negotiated a sale before liquidation. The Court relied on *United States v. Cumberland Public Service Co.*, which held that a corporation is not taxed when the sale is made by its stockholders after a genuine liquidation and dissolution. Judge Turner dissented, arguing that the stockholders were merely engaging in "carefully clocked ritualistic formalities" and that the sale was, in substance, made by the corporation.

Practical Implications

This case provides a clear example of how to structure a corporate liquidation and subsequent sale of assets to avoid corporate-level capital gains tax. It highlights the importance of ensuring that the corporation does not actively negotiate or agree to a sale before the liquidation process is complete. Legal practitioners should advise clients to meticulously document the liquidation process and ensure that all negotiations and agreements are conducted by the shareholders in their individual capacities after the liquidation. This case is frequently cited in cases involving similar liquidations and sales, emphasizing the factual nature of the inquiry and the need to distinguish the circumstances from those in *Court Holding Co.*

