John Simmons Co. v. Commissioner, 14 T.C. 29 (1950)

A corporation that liquidates and distributes assets remains taxable on income generated by those assets if the liquidation is, in substance, a sale of future income.

Summary

John Simmons Co. (Petitioner) purchased Meloso's stock with the primary purpose of acquiring its citrus grove and liquidating Meloso. The fruit crop matured between the stock purchase and the formal dissolution. The Petitioner harvested and sold the fruit, reporting the proceeds as individual income. The Commissioner adjusted the Petitioner's income by eliminating the fruit sale proceeds and adding that amount to Meloso's gross income, resulting in tax deficiencies for Meloso. The Tax Court held that the income from the fruit sale was taxable to Meloso because the fruit represented unrealized corporate income and because the liquidation did not prevent Meloso from earning that income.

Facts

The Petitioner purchased all of Meloso's stock with the intent to acquire Meloso's citrus grove.
Between the stock purchase and the formal dissolution of Meloso, the citrus crop matured.
The Petitioner harvested and sold the fruit and treated the proceeds as his individual income.
Meloso bore all expenses of cultivating and maintaining the trees during the growing season.
Title to the grove and the fruit was in the corporation at the time of harvest.

Procedural History

The Commissioner determined deficiencies in Meloso's declared value excess-profits tax and excess profits tax, arguing that the fruit sale proceeds were taxable to Meloso. The Tax Court reviewed the Commissioner's determination.

Issue(s)

Whether the income attributable to the sale of the fruit should be taxed to Meloso or to the Petitioner.
Whether Meloso or the Petitioner, both being on a cash basis, received cash either actually or constructively from the fruit in 1943.
Whether the purchase of the stock and subsequent liquidation and dissolution of Meloso are to be taken as a single transaction for tax purposes, the substance of which was the acquisition of the Meloso grove.

Holding

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Yes, because the fruit on the trees represented potential or unrealized income of Meloso, and no corporate action had been taken to distribute the fruit to the Petitioner. Taxing the proceeds to Meloso “clearly to reflect the income” of Meloso.
Yes, the Tax Court found that the Petitioner controlled the fruit proceeds as of December 31, 1943, and the income was received in 1943.
Yes, on the authority of Commissioner v. Ashland Oil & Refining Co., the stock purchase and liquidation of Meloso are considered a single transaction, effectively a purchase of assets.

Court’s Reasoning

The court reasoned that the fruit on the trees represented potential or unrealized income of Meloso. The court emphasized that all expenses of cultivating the grove and maintaining the trees were borne by Meloso, and title to the grove and the fruit at the time of harvest was in the corporation. The court found that the income arising from the sale of the fruit should be attributed to Meloso to

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