25 T.C. 656

A distribution of corporate assets to a shareholder during a corporate liquidation, even if structured as a stock sale to another shareholder, can be deemed a liquidating distribution, subjecting the recipient to transferee liability for the corporation's unpaid taxes if the series of liquidating distributions renders the corporation insolvent.

Summary

Aurore Benoit, a minority shareholder in River Mills, Inc., received $53,611.68, equivalent to the value of her stock, from her husband who controlled the corporation and withdrew funds from the company. The Tax Court determined this payment was part of a series of liquidating distributions, not a bona fide stock sale, as River Mills was in the process of winding up its affairs. The court held Benoit liable as a transferee for River Mills' unpaid corporate taxes to the extent of the distribution she received because the liquidation ultimately rendered the corporation insolvent and unable to pay its tax liabilities. The court also upheld the validity of waivers extending the statute of limitations for tax assessment, signed by Benoit as treasurer, estopping her from contesting them.

Facts

River Mills, Inc., a yarn manufacturer, was controlled by Theophile Guerin, with his wife, Aurore Benoit, as a minority shareholder and corporate officer. In 1945, Guerin decided to retire and liquidate River Mills. The corporation sold its fixed assets in December 1945 and ceased its primary business. In February 1946, Guerin withdrew $75,000 from River Mills and deposited it into his personal account. On the same day, he paid Benoit $53,611.68 from this account, equivalent to her stock's value, and she endorsed her shares to him. River Mills was formally dissolved in December 1946. The Commissioner later assessed tax deficiencies against River Mills for 1944 and 1945, which remained unpaid. The Commissioner then sought to hold Benoit liable as a transferee of corporate assets.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in River Mills, Inc.'s excess profits tax for 1944 and income and excess profits tax for 1945 and issued a notice of transferee liability to Aurore Benoit. Benoit petitioned the Tax Court to contest this liability. The Tax Court upheld the Commissioner's determination, finding Benoit liable as a transferee.

Issue(s)

1. Whether the payment of $53,611.68 to Benoit was a distribution in liquidation of River Mills, Inc., making her a transferee of corporate assets.
2. Whether the statute of limitations barred the assessment of transferee liability

© 2025 SCOTUSreports.com. All rights reserved.

against Benoit due to the expiration of the corporate existence and the validity of waivers extending the assessment period.
3. Whether the respondent failed to prove that the deficiencies in tax for the years 1944 and 1945 assessed against River Mills, Inc., have not been paid.

Holding

1. Yes, the payment to Benoit was in substance a liquidating distribution because it was part of a series of distributions that ultimately rendered River Mills insolvent as it wound up its affairs.
2. No, the statute of limitations did not bar the assessment because waivers extending the assessment period, signed by Benoit as treasurer, were valid, and she was estopped from denying their validity.
3. No, the respondent sufficiently demonstrated that the assessed deficiencies against River Mills, Inc., remained unpaid.

Court's Reasoning

The Tax Court reasoned that despite the form of a stock sale to her husband, the payment to Benoit was substantively a liquidating distribution. The court emphasized that River Mills was in the process of liquidation when Benoit received the payment, evidenced by the sale of assets and cessation of business operations. The court found that Guerin acted as a mere conduit for corporate funds to Benoit. Applying transferee liability principles, the court noted that while the distribution to Benoit alone didn't cause insolvency, it was part of a series of liquidating distributions that ultimately left River Mills without assets to pay its tax liabilities. The court cited precedent establishing transferee liability when liquidating distributions render a corporation insolvent. Regarding the statute of limitations, the court held that Benoit, by signing waivers as treasurer after the corporation's dissolution period had technically expired under state law, was estopped from denying the waivers' validity, especially since no notice of corporate dissolution was filed with the IRS. The court concluded the waivers validly extended the assessment period, making the notice of transferee liability timely. The court also found sufficient evidence that the corporate taxes remained unpaid, given the corporation's asset depletion and dissolution.

Practical Implications

Benoit v. Commissioner clarifies that the substance of a transaction, not merely its form, determines whether a distribution is considered a liquidating distribution for transferee liability purposes. Attorneys must advise clients that even transactions structured as stock sales can be recharacterized as liquidating distributions if they occur during corporate wind-ups and utilize corporate funds. This case highlights the importance of proper corporate dissolution procedures, including notifying the IRS, to avoid estoppel arguments regarding statute of limitations waivers. It also underscores that shareholders receiving liquidating distributions have a potential

© 2025 SCOTUSreports.com. All rights reserved.

liability for unpaid corporate taxes, even if they are minority shareholders or believe they are selling their stock. Later cases applying *Benoit* emphasize the factual inquiry into the context of distributions during corporate dissolutions to determine transferee liability.

© 2025 SCOTUSreports.com. All rights reserved.