Screen Gems, Inc. v. Commissioner, 55 T. C. 597 (1970)

The statute of limitations for assessing transferee liability does not extend beyond three years after the expiration of the period for assessing the original taxpayer, regardless of extensions by an initial transferee.

Summary

In Screen Gems, Inc. v. Commissioner, the Tax Court ruled that the statute of limitations barred the assessment of transferee liability against Screen Gems, a transferee of a transferee. The case involved a series of corporate liquidations and asset transfers from Major Attractions, Inc. and Arista Film Corp. to subsequent entities, ultimately reaching Screen Gems. The court held that despite extensions of the assessment period by the initial transferee, U. S. Television Film Co. , Inc. , the three-year limitation period for assessing Screen Gems' liability had expired. The decision emphasized that the statute of limitations for transferee liability is strictly tied to the original taxpayer's assessment period and cannot be extended by actions of an initial transferee alone.

Facts

Major Attractions, Inc. and Arista Film Corp. filed their tax returns for their respective taxable periods in 1953 and 1954. U. S. Television Film Co. , Inc. (USTV) purchased and liquidated these companies in 1954, acquiring their assets. In 1956, Slate Pictures, Inc. acquired USTV's stock, and in 1959, Screen Gems, Inc. purchased Slate's stock and liquidated both USTV and Slate, becoming the transferee of a transferee. The IRS assessed transferee liability against USTV in 1963, and later attempted to assess Screen Gems in 1969. USTV had extended its assessment period multiple times, but no extension was sought from Screen Gems.

Procedural History

The IRS issued notices of transferee liability to USTV in 1963, leading to a Tax Court proceeding where USTV's liability was determined in 1968. In 1969, the IRS issued notices of transferee liability to Screen Gems, which filed a motion to strike and for judgment on the pleadings, arguing that the statute of limitations barred the assessment against it.

Issue(s)

1. Whether the statute of limitations bars the assessment of transferee liability against Screen Gems under section 311(b)(2) of the Internal Revenue Code of 1939?

Holding

1. Yes, because the period of limitation for assessing Screen Gems' liability as a transferee of a transferee expired three years after the period for assessing the

© 2025 SCOTUSreports.com. All rights reserved.

original taxpayers, Major and Arista, and was not extended by USTV's waivers.

Court's Reasoning

The court applied section 311(b)(2) of the Internal Revenue Code of 1939, which states that the period of limitation for assessing transferee liability is within one year after the expiration of the period for assessing the preceding transferee, but only if within three years after the expiration of the period for assessing the original taxpayer. The court rejected the IRS's argument that USTV's extensions of its own assessment period also extended the period for assessing Screen Gems. The court emphasized that the three-year limitation period is tied to the original taxpayer's assessment period and cannot be extended by actions of an initial transferee alone. The court also distinguished between a Tax Court proceeding for redetermination of liability and a court proceeding for collection, holding that only the latter could trigger the exception clause in section 311(b)(2). The court's decision was influenced by the policy of providing transferees with certainty and protection against stale claims.

Practical Implications

This decision clarifies that the statute of limitations for assessing transferee liability is strictly tied to the original taxpayer's assessment period. Attorneys should ensure that the IRS assesses the original taxpayer or obtains waivers from them within the statutory period to preserve the right to assess subsequent transferees. The ruling may encourage the IRS to be more diligent in assessing original taxpayers or seeking waivers from them, even when their assets have been transferred. The decision also highlights the importance of distinguishing between Tax Court proceedings for redetermination and court proceedings for collection when analyzing the statute of limitations in transferee liability cases.

© 2025 SCOTUSreports.com. All rights reserved.