Kinsey v. Commissioner, 58 T. C. 259 (1972)

Taxpayers are taxable on liquidating distributions received by a donee if the liquidation process is beyond the donee's control at the time of the stock donation.

Summary

In Kinsey v. Commissioner, the U. S. Tax Court ruled that John P. Kinsey and his wife were taxable on liquidating distributions received by DePauw University, to which Kinsey had donated stock in Container Properties, Inc. after the corporation had already initiated its liquidation process under Section 337 of the Internal Revenue Code. The key issue was whether the donation constituted an anticipatory assignment of income. The court held that since significant steps in the liquidation had occurred before the donation, and DePauw had no power to alter the course of the liquidation, the distributions were taxable to the Kinseys.

Facts

Container Properties, Inc. (Container) adopted a plan of liquidation under Section 337 of the Internal Revenue Code on April 26, 1965. It exercised its rights to sell its assets and made initial distributions of stock in its subsidiaries, LaPorte and Carolina, to its shareholders on April 30, 1965. On July 7, 1965, John P. Kinsey donated a 56. 8% interest in Container to DePauw University. The liquidation continued and was completed by October 31, 1965, with final distributions made to shareholders, including DePauw, in October and December 1965.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the Kinseys' 1965 income tax due to the liquidating distributions received by DePauw. The Kinseys petitioned the U. S. Tax Court for a redetermination of the deficiency. The court found for the Commissioner, ruling that the Kinseys were taxable on the distributions.

Issue(s)

1. Whether the Kinseys are taxable on the liquidating distributions received by DePauw University after Kinsey donated Container stock to the university.

Holding

1. Yes, because the liquidation process had progressed to a point where it was beyond DePauw's control at the time of the stock donation, and the donation constituted an anticipatory assignment of income to the Kinseys.

Court's Reasoning

The court applied the principle of anticipatory assignment of income, citing cases like *Helvering v. Horst* and *Winton v. Kelm*. It reasoned that the crucial steps in the liquidation process, including the adoption of the liquidation plan and initial asset distributions, occurred before Kinsey's donation to DePauw. The court noted that DePauw did not have the legal power to stop or alter the ongoing liquidation, as it lacked the necessary two-thirds shareholder vote to rescind the plan. The court distinguished this case from others where donees had control over the liquidation process, emphasizing that DePauw was powerless to affect the outcome. The court concluded that the Kinseys could not insulate themselves from taxation by donating the stock after the liquidation was underway.

Practical Implications

This decision impacts how attorneys should advise clients on the timing of stock donations in relation to corporate liquidations. It clarifies that if a corporation has taken significant steps towards liquidation before a stock donation, the donor may still be liable for taxes on subsequent liquidating distributions received by the donee. This ruling influences tax planning strategies, particularly in avoiding anticipatory assignments of income. It also affects how charitable organizations assess the value and tax implications of stock donations during corporate liquidations. Subsequent cases, such as *Jacobs v. United States* and *W. B. Rushing*, have further explored the nuances of control and timing in similar scenarios.

