Pittsburgh Realty Investment Trust v. Commissioner, 69 T. C. 287 (1977)

A purchaser of all corporate stock followed by liquidation is liable as a transferee for the corporation's tax deficiencies under IRC section 6901, despite arguments of substance over form.

Summary

Pittsburgh Realty Investment Trust (PRIT) purchased all the stock of College Housing, Inc. (CHI) and then liquidated CHI, acquiring its assets. The IRS assessed PRIT as a transferee liable for CHI's tax deficiency. PRIT argued it was an asset purchaser, not a transferee, but the Tax Court held that the form of the transaction (stock purchase and liquidation) controlled, making PRIT liable under IRC section 6901. The court also determined that CHI's liquidation occurred after September 30, 1968, allowing a timely assessment of transferee liability against PRIT.

Facts

Pittsburgh Realty Investment Trust (PRIT) initially sought to purchase dormitory properties owned by College Housing, Inc. (CHI). However, CHI's shareholders opted for a stock sale instead of an asset sale, citing tax advantages. On August 7, 1968, PRIT agreed to buy all of CHI's stock for $460,000. The stock purchase closed on October 4, 1968, and PRIT immediately liquidated CHI, transferring its assets to PRIT. CHI had unreported gains, leading to a tax deficiency of $38,189. 48. The IRS assessed PRIT as a transferee liable for this deficiency under IRC section 6901.

Procedural History

PRIT filed a petition with the Tax Court challenging the IRS's assessment of transferee liability. The IRS issued two notices of liability: one for the period January 1, 1968, to September 30, 1968, and another for the period ending December 31, 1968. The Tax Court consolidated the cases and ruled that PRIT was liable as a transferee for CHI's tax deficiency and that the liquidation of CHI occurred after September 30, 1968, making the second notice of liability timely.

Issue(s)

1. Whether PRIT, by purchasing all of CHI's stock and then liquidating CHI, is liable as a transferee for CHI's tax deficiency under IRC section 6901.
2. Whether the notice of transferee liability was timely issued under the statute of limitations.

Holding

1. Yes, because the form of the transaction (stock purchase followed by liquidation) controlled over PRIT's argument that the substance of the transaction was an asset purchase.

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2. Yes, because CHI’s liquidation occurred after September 30, 1968, making the second notice of liability timely under IRC section 6501(c)(3).

Court’s Reasoning

The Tax Court emphasized the Danielson rule, which requires parties to be held to the terms of their agreements unless they can show mistake, undue influence, fraud, or duress. PRIT’s argument to recharacterize the transaction as an asset sale was rejected because it failed to meet these criteria. The court found that the transaction was intentionally structured as a stock purchase and liquidation, and this form should be respected for tax purposes. The court also noted that PRIT’s actions post-purchase, such as informing mortgage holders and the university of the stock sale and ongoing liquidation, supported the finding that the liquidation occurred after September 30, 1968. The court concluded that since no valid return was filed for CHI’s entire taxable year, the notice of liability was timely under IRC section 6501(c)(3).

Practical Implications

This decision underscores the importance of respecting the form of transactions in tax law, particularly in the context of stock purchases followed by liquidations. Practitioners must carefully consider the tax implications of structuring deals and ensure that all parties understand the potential transferee liabilities. The ruling also highlights the need for accurate record-keeping and timely filing of returns, as the failure to file a return for the correct taxable period can extend the statute of limitations for assessing transferee liability. Subsequent cases have relied on this decision to uphold the form of transactions in determining transferee liability under IRC section 6901.

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