Estate of Bickmeyer v. Commissioner, 84 T. C. 170 (1985)

Liquidation proceeds from a corporation are considered income in respect of a decedent if the decedent had a right to receive them at the time of death.

Summary

Henry C. Bickmeyer owned shares in two corporations whose assets were condemned by Nassau County. Before his death, the corporations voted to liquidate under section 337, and partial liquidation proceeds were distributed to shareholders, including Bickmeyer. After his death, his estate received further proceeds. The Tax Court held that these proceeds were income in respect of a decedent under section 691(a)(1), denying the estate a step-up in basis for the stock under section 1014. The court's decision was based on the fact that the liquidation had sufficiently matured by Bickmeyer's death, giving him a right to receive the proceeds.

Facts

Henry C. Bickmeyer owned nearly all the shares of Hempstead Bus Corp. (Bus) and a significant portion of H. B. Land Corp. (Land). In March 1973, Nassau County initiated condemnation proceedings for all assets of both corporations. By June 1973, the county had taken possession of the assets, and partial payments were made in July 1973. Both corporations voted to dissolve and liquidate under section 337 in May 1973. Bickmeyer received partial distributions in July 1973. He died on November 15, 1973. Post-death, his estate received additional liquidation proceeds in 1974 and 1976 after the final condemnation awards were settled.

Procedural History

The estate filed a petition with the U. S. Tax Court contesting the Commissioner's determination of deficiencies for fiscal years ending October 31, 1974, and October 31, 1976. The Commissioner argued that the liquidating distributions were income in respect of a decedent, thus not eligible for a step-up in basis under section 1014. The Tax Court ruled in favor of the Commissioner, holding that the distributions constituted income in respect of a decedent.

Issue(s)

1. Whether the liquidating distributions received by the estate from Hempstead Bus Corp. and H. B. Land Corp. in fiscal years 1974 and 1976 constituted income in respect of a decedent under section 691(a)(1).

Holding

1. Yes, because the liquidation of the corporations had sufficiently matured at the time of Bickmeyer's death, giving him a right to receive the proceeds, which were

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therefore income in respect of a decedent.

Court’s Reasoning

The court applied section 691(a)(1), which defines income in respect of a decedent as income the decedent was entitled to but not yet included in their taxable income at the time of death. The court emphasized that the crucial element is whether the decedent had a right to receive the income at the time of death. The court found that by November 1973, the liquidation process had advanced significantly: the assets were condemned, partial distributions were made, and the corporations were committed to liquidation. Only ministerial acts remained. The court cited Estate of Sidles v. Commissioner, where similar facts led to the same conclusion. The court distinguished this case from Keck v. Commissioner, where the liquidation was not as mature at the time of the decedent’s death due to pending contingencies. The court concluded that Bickmeyer’s right to the liquidation proceeds was clear at his death, making them income in respect of a decedent.

Practical Implications

This decision clarifies that for liquidation proceeds to be considered income in respect of a decedent, the liquidation process must have sufficiently matured by the time of death, creating a right to receive the income. This impacts how estates should report such income and how they can claim deductions or adjustments. Practitioners should carefully analyze the state of corporate liquidation at the time of a shareholder’s death to determine the tax treatment of subsequent distributions. This ruling also affects estate planning strategies involving corporate liquidation, as it may influence decisions on timing of liquidation votes and asset sales. Subsequent cases like Rollert Residuary Trust v. Commissioner have applied this principle, further solidifying its impact on estate and tax law.

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