Knowlton v. Commissioner, 83 T. C. 168 (1984)

In the context of corporate liquidation under Section 333(e)(2), the term 'acquired' refers to the date when the corporation received the stock or securities, not when the predecessor corporation acquired them.

Summary

In Knowlton v. Commissioner, the Tax Court addressed whether stock distributed to a shareholder in a corporate liquidation was 'acquired' by the corporation after December 31, 1953, under Section 333(e)(2). The court held that the date of 'acquisition' was when the corporation received the stock, not when a predecessor corporation acquired it. This decision was based on the ordinary meaning of 'acquired' and the policy against converting cash into securities to defer tax recognition. The court rejected the petitioners' arguments for relating the acquisition date back to a pre-1954 date due to involuntary receipt or carryover basis, emphasizing that the liquidation was a voluntary act. This ruling impacts how similar cases involving corporate liquidations and tax implications are analyzed.

Facts

Petitioner Betty W. Knowlton received shares of General Motors (GM) stock in 1978 from Dunmovin Corp. , which was liquidated under Section 333. Dunmovin had received these GM shares from duPont between 1962 and 1965 as part of an antitrust divestiture order. DuPont had acquired the GM stock before 1954. The key issue was whether these GM shares were 'acquired' by Dunmovin after December 31, 1953, impacting the tax treatment of the distribution to Knowlton.

Procedural History

The case began with the Commissioner determining tax deficiencies for the Knowltons for 1977 and 1978, which included issues related to the Nitrol and non-Nitrol distributions. The non-Nitrol issue, concerning the GM stock, was severed for trial and submitted fully stipulated. The Tax Court, presided over by Judge Tannenwald, issued a decision on the non-Nitrol issue, holding for the respondent.

Issue(s)

1. Whether the GM stock distributed to petitioner Betty W. Knowlton during the liquidation of Dunmovin Corp. was 'acquired' by Dunmovin 'after December 31, 1953' within the meaning of Section 333(e)(2).

Holding

1. Yes, because the GM stock was received by Dunmovin after December 31, 1953, and thus 'acquired' on that date under the ordinary meaning of the term, despite being originally acquired by duPont before 1954.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The Tax Court applied the ordinary meaning of ‘acquired’ as the date of receipt, consistent with the guidelines set forth in Commissioner v. Brown, which allows for statutory interpretation to avoid absurd results or thwart statutory purpose. The court examined the legislative history of Section 333(e)(2), finding no clear intent to allow for a ‘relation back’ of acquisition dates in involuntary transactions or where there is a carryover basis. The court also reviewed the Commissioner’s interpretations in various Revenue Rulings, noting that they generally treated the date of acquisition as the date of receipt, with limited exceptions not applicable here. The court rejected the petitioners’ arguments based on the involuntary nature of the GM stock receipt and the carryover basis from duPont, emphasizing that the liquidation itself was a voluntary act by the shareholders. The court concluded that applying the ordinary meaning of ‘acquired’ did not lead to absurd results or thwart the purpose of Section 333.

Practical Implications

The Knowlton decision clarifies that for tax purposes under Section 333(e)(2), the ‘acquisition’ date of stock or securities is when the liquidating corporation receives them, not when a predecessor corporation acquired them. This ruling impacts how attorneys advise clients on the tax consequences of corporate liquidations, particularly when dealing with stock received from other entities. Practitioners must consider this when planning liquidations to avoid unexpected tax liabilities. The decision also reinforces the policy against converting cash into securities to defer tax recognition, a consideration in corporate tax planning. Subsequent cases may reference Knowlton when addressing similar issues of acquisition dates in corporate liquidations.

© 2025 SCOTUSreports.com. All rights reserved.