84 T.C. 160 (1985)

For the purpose of determining taxable gain in a corporate liquidation under Section 333 of the Internal Revenue Code, stock is considered "acquired" by the corporation on the date it obtains ownership, possession, or control, not necessarily when the holding period tacks back to a prior owner.

Summary

In this Tax Court case, the Knowltons challenged the IRS's determination of a tax deficiency arising from a corporate liquidation. Dunmovin Corp., in which Mrs. Knowlton held stock, liquidated under IRC § 333 and distributed General Motors (GM) stock to shareholders. Dunmovin had received this GM stock as a dividend from DuPont due to an antitrust divestiture. The core issue was whether the GM stock was "acquired after December 31, 1953" by Dunmovin, triggering capital gains tax for Knowlton. The court held that "acquired" means when Dunmovin physically received the GM stock (post-1953), not when DuPont originally acquired it (pre-1954), thus ruling against the Knowltons and upholding the deficiency.

Facts

Petitioner Betty Knowlton owned stock in Dunmovin Corp., a personal holding company.

Dunmovin liquidated in June 1978 under IRC § 333, and Knowlton was a qualified electing shareholder.

As part of the liquidation, Knowlton received General Motors (GM) stock, among other assets.

Dunmovin had received the GM stock as a dividend from E.I. du Pont de Nemours & Co. (DuPont) in 1962, 1964, and 1965, due to an antitrust divestiture order.

Dunmovin acquired its DuPont stock before 1954. DuPont acquired the GM stock before 1954.

At the time of distribution from DuPont to Dunmovin, it was treated as a dividend to Dunmovin, eligible for a dividends received deduction, and Dunmovin took a carryover basis and holding period in the GM stock from DuPont.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the Knowltons' federal income tax for 1977 and 1978.

The case was initially set for trial on "Nitrol issues".

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Respondent amended the answer to include the "non-Nitrol issue" concerning the tax treatment of the GM stock received in liquidation.

The Tax Court severed the Nitrol and non-Nitrol issues.

The non-Nitrol issue (the focus of this opinion) was submitted fully stipulated to the Tax Court.

Issue(s)

1. Whether, for purposes of Internal Revenue Code Section 333(e)(2), General Motors stock distributed to Dunmovin Corp. as a dividend in 1962, 1964, and 1965, with respect to DuPont stock acquired before 1954, was "acquired by the corporation after December 31, 1953".

Holding

1. No. The Tax Court held that the General Motors stock was "acquired by the corporation after December 31, 1953" for purposes of Section 333(e)(2) because the plain meaning of "acquired" is when ownership, possession, or control is obtained, which occurred when Dunmovin received the stock in the 1960s.

Court's Reasoning

The court began by considering the plain meaning of "acquired." Referencing *Commissioner v. Brown, 380 U.S. 563 (1965)*, the court noted that while common meaning is persuasive, it should not be applied if it leads to absurd results or thwarts the statute's purpose.

The court found that in common parlance, one "acquires" property when obtaining ownership, possession, or control. Applying this, Dunmovin acquired the GM stock when it received it post-1953.

The legislative history of Section 333(e)(2) was examined, revealing it was originally a temporary relief measure to facilitate personal holding company liquidations, later made permanent with a December 31, 1953 cutoff date. The legislative history provided little specific guidance on the definition of "acquired" beyond preventing tax avoidance by converting cash into securities before liquidation.

The court analyzed IRS Revenue Rulings interpreting "acquired" in Section 333. *Rev. Rul. 56-171* allowed relation back of the acquisition date in a statutory merger, treating it as a continuation of prior ownership. However, *Rev. Rul. 58-92* treated stock received in a Section 351 transaction as "acquired" upon receipt, not relating back to the contributing shareholder's acquisition date, except for reorganizations or stock dividends which were seen as mere changes in form.

Rev. Rul. 64-257 ruled that stock received from a foreign predecessor in a

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reorganization was acquired upon receipt, distinguishing *Rev. Rul. 56-171* because the foreign corporation was not eligible for Section 333 treatment.

The court distinguished the current case from situations where relation back was allowed (mergers, stock dividends), noting the GM stock distribution was a taxable dividend to Dunmovin, not a mere change in form. Dunmovin's holding changed from DuPont stock to DuPont and GM stock.

The court rejected the argument that the involuntary nature of the GM stock distribution (due to antitrust divestiture) should change the outcome. Section 1111, enacted to provide relief related to the DuPont divestiture, was deemed not to influence the interpretation of "acquired" in Section 333. Furthermore, the court emphasized that the liquidation of Dunmovin, which triggered the tax issue, was a voluntary act by the petitioners.

Ultimately, the court concluded that the ordinary meaning of "acquired" should apply, as there was no evidence that this meaning would lead to absurd results or thwart the purpose of Section 333.

Practical Implications

Knowlton v. Commissioner clarifies that for Section 333 liquidations, the "acquired" date of stock and securities is generally the date of receipt by the liquidating corporation. This ruling prevents taxpayers from using carryover basis and holding periods to circumvent the "acquired after 1953" limitation in Section 333(e)(2).

Legal practitioners should advise clients that in Section 333 liquidations, even if stock basis and holding periods tack back to a pre-1954 acquisition by a prior entity, the relevant "acquisition" date for Section 333 purposes is when the liquidating corporation physically received the stock. This case highlights the importance of the plain meaning of statutory language unless legislative intent or absurd results dictate otherwise.

This decision limits the scope of exceptions where the IRS might allow relation back of the "acquired" date, primarily to situations involving mere changes in corporate form like mergers or stock dividends directly related to stock owned before the cutoff date. It reinforces a stricter interpretation of "acquired" in the context of corporate liquidations and tax recognition.

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