Bloomington Transmission Services, Inc. v. Commissioner of Internal Revenue, 87 T.C. 586 (1986)

A corporation dissolved by a state for failure to comply with state corporate law lacks the capacity to petition the Tax Court if state law prohibits it from maintaining actions, even if the corporation continues to operate as a de facto entity.

Summary

Bloomington Transmission Services, Inc., an Illinois corporation, was dissolved by the state for failing to pay franchise taxes and file annual reports. Illinois law limited a dissolved corporation's capacity to maintain civil actions beyond a statutory winding-up period. After this period expired, the IRS issued a deficiency notice, and Bloomington petitioned the Tax Court. The Tax Court dismissed the petition, holding that under Rule 60(c), the corporation lacked the capacity to sue because Illinois law extinguished its capacity to maintain actions after dissolution and the lapse of the winding-up period. The court rejected the argument that the corporation's continued operation and asset holdings created an exception, emphasizing that state law governs corporate capacity in Tax Court proceedings.

Facts

Bloomington Transmission Services, Inc. was incorporated in Illinois.
The corporation was administratively dissolved by Illinois on December 1, 1977, for failure to file annual reports and pay franchise taxes.
Illinois law provided a two-year winding-up period (later extended to five years, but still expired before the tax court petition) for dissolved corporations to conclude affairs and bring or defend lawsuits.
Bloomington did not reinstate its corporate status or wind up its affairs within the statutory period.
Despite dissolution, Bloomington continued to operate, maintain a bank account, and file corporate tax returns.
The IRS issued notices of deficiency for tax years 1979-1982, after the Illinois winding-up period had expired.
Bloomington filed petitions with the Tax Court in response to these notices.

Procedural History

The Commissioner of Internal Revenue issued statutory notices of deficiency to Bloomington Transmission Services, Inc.
Bloomington filed petitions in the Tax Court contesting the deficiencies.
The Commissioner moved to dismiss the petitions for lack of jurisdiction, arguing Bloomington lacked the capacity to sue in Tax Court due to its dissolution under Illinois law.
The Tax Court granted the Commissioner's motion to dismiss.

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Issue(s)

1. Whether, under Tax Court Rule 60(c), an Illinois corporation, dissolved by the state for failure to pay franchise taxes and file annual reports and beyond the statutory winding-up period, has the capacity to petition the Tax Court.
2. Whether the corporation's continued de facto existence and asset holdings after dissolution affect its capacity to sue in Tax Court when state law limits such capacity.

Holding

1. Yes. The Tax Court held that Bloomington Transmission Services, Inc., as a corporation dissolved under Illinois law and beyond the statutory winding-up period, lacked the capacity to petition the Tax Court because Illinois law extinguished its capacity to maintain civil actions.
2. No. The corporation's continued de facto existence and asset holdings do not confer capacity to sue in Tax Court when state law dictates otherwise. The Tax Court emphasized that state law governs corporate capacity to litigate in the Tax Court.

Court's Reasoning

The Tax Court relied on Rule 60(c) of the Tax Court Rules of Practice and Procedure, which states that a corporation's capacity to litigate in Tax Court is determined by the law of the state under which it was organized.

The court cited Illinois law, which dissolves corporations for failure to file annual reports or pay franchise taxes and limits their capacity to maintain actions beyond a statutory winding-up period.

Referring to prior Tax Court cases like *Padre Island Thunderbird, Inc. v. Commissioner* and *Great Falls Bonding Agency, Inc. v. Commissioner*, the court reiterated that state dissolution statutes preclude corporations from petitioning the Tax Court after losing capacity under state law.

The court rejected Bloomington's argument that its continued operation and asset ownership distinguished it from prior cases where dissolved corporations were often defunct and without assets. The court stated, "the existence of assets in a dissolved corporation which may be the subject of collection or the reduced remedies or forums available to a dissolved corporation do not affect or modify the incapacity to initiate or maintain a civil action in the State of Illinois and hence in this Court".

The court acknowledged the seemingly anomalous situation where the IRS can issue a deficiency notice to a dissolved corporation, but the corporation may lack capacity to challenge it in Tax Court. However, the court noted that remedies might exist in transferee liability proceedings against shareholders.

The court emphasized that allowing a dissolved corporation to sue beyond the state-prescribed winding-up period would undermine Illinois' authority to regulate corporate existence, quoting *Chicago Title & Trust Co. v. Wilcox Bldg. Corp.* regarding the validity of state statutes limiting corporate wind-up periods.

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The court distinguished the District Court's order in a related summons enforcement case, which estopped Bloomington from denying corporate existence for summons enforcement purposes. The Tax Court clarified that estoppel for summons enforcement does not equate to capacity to sue in Tax Court.

Practical Implications

This case reinforces the principle that a corporation's capacity to litigate in federal courts, including the Tax Court, is primarily determined by the law of the state of its incorporation.

Attorneys representing corporations must be acutely aware of state corporate law regarding dissolution and winding-up periods, particularly when dealing with tax disputes.

Dissolved corporations generally lose the ability to initiate lawsuits, including petitions to the Tax Court, after the state-mandated winding-up period expires, regardless of continued business operations or asset holdings.

Taxpayers operating through corporations must ensure ongoing compliance with state corporate law requirements (like filing annual reports and paying franchise taxes) to avoid involuntary dissolution and potential limitations on their legal recourse in tax matters.

This case highlights a potential procedural gap: the IRS can assess deficiencies against dissolved corporations, but those corporations may be barred from challenging those assessments in Tax Court if they fail to act within the state winding-up period. This may necessitate shareholders or transferees to litigate tax liabilities in subsequent proceedings.

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