***Pittsburgh Milk Co. v. Commissioner, 46 B.T.A. 539 (1942)***

A discount on the purchase price of goods is treated as a reduction in the cost of goods sold for tax purposes, and undistributed profits tax credits are only allowed when the taxpayer strictly adheres to the statutory requirements for such credits.

**Summary**

Pittsburgh Milk Co. contested the Commissioner's determination that certain amounts were discounts on goods purchased, reducing the cost of goods sold and increasing taxable income. The company argued these were actually part of the sale price of stock. The Board of Tax Appeals held that the amounts were properly treated as discounts because the contracts were separate and clearly defined as such. Additionally, the Board disallowed credits claimed for contracts restricting dividend payments, finding the company failed to meet the strict statutory requirements for such credits, including demonstrating a direct contractual obligation to restrict dividends from current earnings.

**Facts**

Pittsburgh Milk Co. purchased goods from Brightwater Company. The Commissioner determined that $2,560.02 and $12,649.97 represented discounts on these purchases. The company argued these amounts were part of the sale price of shares of Adams Company stock, contending that the "real agreement" was to treat these discounts as part of the stock sale proceeds. Guild, who negotiated the deal, initially offered $100,000 for the shares, which was refused. He then proposed two separate contracts: one for the sale of shares and another for discounts on purchased goods. The contracts were executed separately, with no reference to each other.

**Procedural History**

The Commissioner of Internal Revenue assessed a deficiency against Pittsburgh Milk Co. The company petitioned the Board of Tax Appeals, contesting the Commissioner's determination regarding the discounts and the disallowance of undistributed profits tax credits. The Board of Tax Appeals ruled in favor of the Commissioner, upholding the deficiency assessment.

**Issue(s)**

1. Whether the amounts designated as discounts on the purchase of goods should be treated as a reduction in the cost of goods sold, or as part of the sale price of shares of stock for tax purposes.

2. Whether the taxpayer is entitled to undistributed profits tax credits based on contracts restricting dividend payments.

**Holding**

© 2025 SCOTUSreports.com. All rights reserved. 

1. No, because the contracts for the purchase of goods and the sale of stock were separate and distinct, and the amounts were clearly designated as discounts in the purchase contracts.

2. No, because the taxpayer failed to demonstrate that it met the strict statutory requirements for claiming such credits, including showing a direct contractual obligation restricting dividend payments from current earnings and profits.

**Court’s Reasoning**

The Board reasoned that the two contracts (sale of stock and purchase of goods with discounts) were deliberately structured as separate agreements with distinct parties and subjects. The contracts made no reference to each other and were independently clear. The Board noted that the contemporaneous treatment of the contract by the seller and buyer was that of a discount. While the petitioner’s balance sheet called the amounts proceeds or payments for the shares, this was outweighed by the seller’s treatment of the discounts as such in its income tax return.

Regarding the undistributed profits tax credits, the Board emphasized that these credits are

© 2025 SCOTUSreports.com. All rights reserved. 