1 T.C. 579 (1943)

For a gift of stock to be valid for tax purposes, the donor must relinquish dominion and control over the shares, including transferring them on the company's books and not retaining the dividends.

Summary

R.C. Coffey endorsed stock certificates to his minor children, stating he was making a gift. However, he kept the certificates, didn't transfer the shares on the corporations' books, and continued to receive dividends for his own use. The Tax Court held that these actions meant the gifts weren't valid for tax purposes. Coffey remained taxable on the dividends because he hadn't relinquished control over the stock. The court also addressed deductions for travel, legal fees, and citrus grove expenses.

Facts

R.C. Coffey, a resident of Florida, endorsed stock certificates to his three minor children at various times between 1922 and 1937, declaring to witnesses that he was gifting the shares. Despite the endorsements, Coffey retained possession of the certificates, never had the shares transferred to the children on the books of the respective corporations, and continued to receive and use the dividends personally. In 1938, an accountant advised Coffey that the dividends should be attributed to the children, leading Coffey to execute promissory notes to them for the past dividends and claim an interest deduction.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency against Coffey for his 1938 income tax. Coffey petitioned the Tax Court, contesting the deficiency. The Tax Court addressed several issues, including the validity of the stock gifts, the deductibility of interest payments to his children, and various business expense deductions.

Issue(s)

1. Whether Coffey was taxable on the dividends received in 1938 on shares of stock he claimed to have gifted to his minor children in prior years.

2. Whether Coffey was entitled to deduct amounts paid to his children in 1938 as interest for the use of dividends he received in 1937 on shares previously endorsed to them.

Holding

1. No, because Coffey did not relinquish dominion and control over the stock. He

© 2025 SCOTUSreports.com. All rights reserved.

retained possession of the certificates, never transferred them on the corporate books, and continued to receive the dividends for his own use.

2. No, because the dividends were deemed Coffey's income, not the children's, so no valid debtor-creditor relationship existed to support an interest deduction.

Court's Reasoning

The Tax Court emphasized that a valid gift requires the donor to absolutely and irrevocably divest themselves of title, dominion, and control of the gifted property. Citing *Allen-West Commission Co. v. Grumbles*, the court stated that a gift requires "the intention of the donor to absolutely and irrevocably divest himself of the title, dominion, and control of the subject of the gift in praesenti at the very time he undertakes to make the gift." Because Coffey retained control by not transferring the stock on the books and by using the dividends personally, the court found no completed gift. The court distinguished the case from situations where stock is transferred on the company's books, even if the certificates are retained by the transferor. The court noted that Coffey's actions suggested he hadn't fully intended to relinquish control, and that the accounting made in 1938 was initiated by his accountant, and not by Coffey himself.

Practical Implications

This case illustrates the importance of complete and demonstrable relinquishment of control when making a gift, especially in the context of publicly traded stock. Endorsing a stock certificate is insufficient. To ensure a gift is recognized for tax purposes, donors must transfer the stock on the company's books, deliver the certificates, and avoid any commingling of funds or continued personal use of dividends. The case serves as a reminder that intent alone is not enough; actions must align with the intention to transfer ownership. Later cases applying *Coffey* emphasize the necessity of clear and consistent conduct demonstrating a completed transfer of ownership.

© 2025 SCOTUSreports.com. All rights reserved.