2 T.C. 168 (1943)

A corporation’s acquisition and reissuance of its own stock does not result in taxable gain if the transactions are part of a capital readjustment rather than dealing in its own shares as it would with shares of another corporation.

Summary

Brockman Oil Well Cementing Company acquired shares from a retiring stockholder and later reissued those shares to another stockholder in exchange for debt relief. The Commissioner of Internal Revenue argued that the company realized a taxable gain from the difference between the acquisition price and the reissuance price. The Tax Court held that no taxable gain occurred because the transactions were intended to readjust the company’s capital structure, not to profit from dealing in its own stock as it might with another company’s stock. This case clarifies the circumstances under which a corporation’s dealings in its own stock are considered capital readjustments versus taxable transactions.

Facts

J.V. Calvert, owning 12 1/2 shares (one-sixth) of Brockman Oil Well Cementing Company’s stock, wanted to leave the company in early 1939. The company acquired Calvert’s shares for $375, representing one-sixth of the company’s net worth at the time. These shares were held as treasury stock. Later, the company needed additional capital and borrowed over $30,000 from stockholder E.E. Swift, issuing promissory notes. On May 31, 1939, the company reissued the 12 1/2 treasury shares to Swift, crediting $6,600 (the then book value of the shares) against the debt Swift was owed. The reissuance price significantly exceeded the original purchase price from Calvert.

Procedural History

The Commissioner determined a deficiency in Brockman Oil Well Cementing Company’s income tax for the fiscal year ended April 30, 1940, based on the alleged taxable gain from the stock transaction. The company contested this adjustment before the United States Tax Court.

Issue(s)

1. Whether the corporation’s acquisition and reissuance of its own shares constituted

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