3 T.C. 297 (1944)

Stock dividends, under Section 115(h) of the Revenue Act of 1936, do not reduce a corporation's accumulated earnings and profits for the purpose of calculating the undistributed profits tax credit under Section 26(c)(3), regardless of state law treatment.

Summary

Century Electric Co. sought a credit against its undistributed profits tax for 1936 and 1937, claiming a deficit in accumulated earnings and profits under Section 26(c)(3) of the Revenue Act of 1936. The company argued that stock dividends reduced its earnings and profits. The Tax Court held that stock dividends do not reduce accumulated earnings and profits under federal law (specifically, Section 115(h) of the Revenue Act of 1936), thus Century Electric was not entitled to the credit. The Court emphasized that federal tax law governs the determination of earnings and profits, not state law.

Facts

Century Electric paid stock dividends of common stock on common stock. From March 1, 1913, to December 31, 1935, Century Electric's net operating profits were $5,818,743.29. The company's books showed a surplus of $243,039.22 as of December 31, 1935. Century Electric argued that certain items, like write-ups of patents and premiums from the sale of stock, should be excluded from earnings and profits, and that charges should be made for treasury stock, resulting in a deficit.

Procedural History

Century Electric initially contested its undistributed profits tax based on a contract restricting dividend payments under Section 26(c)(2) of the Revenue Act of 1936. After the enactment of Section 501 of the Revenue Act of 1942, adding Section 26(c)(3), Century Electric amended its petition to claim a credit based on a deficit in accumulated earnings and profits. The Tax Court rejected both claims.

Issue(s)

1. Whether stock dividends reduce a corporation's

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