4 T.C. 93 (1944)

Patronage dividends distributed by a cooperative in excess of the maximum allowable dividend on its stock, where patrons are entitled to such distributions by the cooperative's bylaws, are treated as rebates and excluded from the cooperative's gross income for tax purposes.

Summary

United Cooperatives, Inc., an agricultural cooperative, sought to exclude patronage dividends from its gross income. The Tax Court addressed whether these dividends were properly includible in the cooperative's taxable income. The court held that patronage dividends distributed in excess of 8% of the par value of the cooperative's outstanding common stock are treated as rebates, excludable from gross income. This decision hinged on the cooperative's bylaws, which entitled patrons to a distribution of net income, and the fact that no dividends were declared on the stock during the taxable years in question.

Facts

United Cooperatives, Inc., incorporated under the Indiana General Corporation Act, operated as an agricultural cooperative association. Its bylaws stipulated that patrons were entitled to a distribution of net income, proportional to their patronage, after allocations for depreciation and dividends (up to 8% of par value) on common stock. During the tax years in question (1937, 1938, and 1939), the cooperative declared no dividends on its stock, and most of its net income was refunded to patrons as

© 2025 SCOTUSreports.com. All rights reserved.