4 T.C. 325 (1944)

The taxability of corporate distributions as dividends to a shareholder is determined by the tax law in effect during the shareholder's tax year, not the corporation's tax year, when those years differ.

Summary

The Estate of Harold Lehman, a shareholder, received distributions from Lehman Corporation during its fiscal year ending June 30, 1937. The estate's fiscal year ended October 31, 1936. The Revenue Act of 1936 changed the definition of dividends, but applied to tax years beginning after December 31, 1935. The Tax Court had to decide whether the 1934 or 1936 Act applied to the distributions received by the estate. The court held that the 1934 Act governed the taxability of distributions to the estate because that was the act in effect for the estate's fiscal year. Therefore, the distributions were not taxable dividends because the corporation had no earnings or profits accumulated after February 28, 1913.

Facts

- The Estate of Harold Lehman (petitioner) owned 1,000 shares of Lehman Corporation stock.
- The estate's fiscal year ended October 31.
- Lehman Corporation's fiscal year ended June 30.
- In July and October 1936, Lehman Corporation made distributions to its shareholders.
- Lehman Corporation had no earnings or profits accumulated after February 28, 1913, but did have earnings for its fiscal year ending June 30, 1937.

Procedural History

- The estate included the distributions in its taxable income for the fiscal year ended October 31, 1936.
- The estate filed a claim for a refund, arguing the distributions were not taxable income.
- The Commissioner rejected the claim and determined a deficiency.
- The Tax Court reviewed the Commissioner's decision.

Issue(s)

1. Whether distributions received by the estate from Lehman Corporation in July and October 1936, are taxable dividends under the Revenue Act of 1934, given that the corporation had no earnings or profits accumulated after February 28, 1913, but did have current year earnings.

Holding

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1. No, because the Revenue Act of 1934, which was in effect during the estate's fiscal year, defined dividends as distributions out of earnings or profits accumulated after February 28, 1913, and Lehman Corporation had no such earnings.

Court's Reasoning

The court reasoned that the applicable law for determining the taxability of the distributions was the Revenue Act of 1934, since the estate's fiscal year ended October 31, 1936, before the Revenue Act of 1936 took effect. The Revenue Act of 1936, by its own terms, applied

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