4 T.C. 942 (1945)

The tax treatment of amounts received for stock transferred back to the issuing corporation depends on whether the transfer is considered a partial or complete liquidation, impacting whether the gain is treated as a short-term or long-term capital gain.

Summary

Williams Cochran transferred shares of Gremoco Corporation preferred stock back to the company. The Tax Court had to determine whether these transfers constituted distributions in partial liquidation (taxed as short-term capital gains) or distributions in complete liquidation (potentially taxed as long-term capital gains if held long enough). The court held that the earlier transfers were partial liquidations because there was no fixed plan for complete liquidation at the time, but the final transfer was a complete liquidation due to a subsequent decision to dissolve the company immediately. This case highlights the importance of timing and documented intent in corporate liquidations for tax purposes.

Facts

Gremoco was formed to manage investments for the Cochran family. Williams Cochran held preferred stock. Due to financial needs, Cochran sold some of his preferred stock back to Gremoco in multiple transactions during 1939. Initially, Gremoco intended to purchase all preferred stock and then liquidate, but without a specific timeline. Later in 1939, controlling stockholders decided on immediate liquidation. All remaining preferred stock was then acquired.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Cochran's 1939 income tax, arguing the gains from the stock transfers were short-term capital gains from partial liquidation. Cochran petitioned the Tax Court for redetermination, arguing the transfers were either sales of capital assets or distributions in complete liquidation. The Tax Court partly agreed with both sides, leading to a decision entered under Rule 50.

Issue(s)

1. Whether the amounts received by Cochran for the stock transferred to Gremoco constituted distributions in partial liquidation under Section 115(c) of the Internal Revenue Code?
2. Alternatively, whether the amounts were received as distributions in complete liquidation of Gremoco?

Holding

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1. Yes, for the first 1,256 shares (May 8, August 7, and October 12 transactions) because, at the time of those transactions, there was no fixed plan for immediate complete liquidation.
2. Yes, for the final 2,000 shares (November 10 transaction) because by that time, the controlling stockholders had decided to liquidate Gremoco immediately.

Court’s Reasoning

The court relied on Section 115(i) of the Internal Revenue Code, which defines “amounts distributed in partial liquidation” as

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