5 T.C. 452 (1945)

A taxpayer can deduct a loss on their investment in a subsidiary's stock when the stock becomes worthless, provided the worthlessness is established by an identifiable event and the taxpayer properly accounts for prior consolidated losses.

Summary

Iron Fireman Manufacturing Company sought a tax deduction for a loss on its investment in its subsidiary, Iron Fireman of St. Louis, Inc., after dissolving the subsidiary and transferring its assets to another subsidiary. The Tax Court addressed two issues: (1) whether the Commissioner erred in disallowing a long-term capital loss deduction claimed by Iron Fireman on its investment in the St. Louis subsidiary and (2) whether the Commissioner properly refused to allow a refund of excess profits tax based on the restoration of abnormal deductions for replacement expenses in prior base period years. The Tax Court ruled in favor of Iron Fireman on the first issue, allowing the deduction for the stock loss, but against Iron Fireman on the second issue, denying the excess profits tax refund.

Facts

Iron Fireman Manufacturing Company owned all the stock of Iron Fireman of St. Louis, Inc. (St. Louis Co.). St. Louis Co. incurred operating losses over several years, which were deducted in consolidated tax returns. St. Louis Co. became indebted to Iron Fireman. In 1940, St. Louis Co. transferred its assets to another Iron Fireman subsidiary, Iron Fireman Corporation, in exchange for the assumption of $250,000 of St. Louis Co.'s debt to Iron Fireman and a cash payment of $15,950.84. St. Louis Co. was then dissolved, and Iron Fireman credited the cash and assumed debt against the total debt owed. Iron Fireman claimed its stock investment in St. Louis Co. became worthless in 1940.

Procedural History

Iron Fireman filed its 1940 tax return, claiming a capital loss and later filing an amended return seeking a refund of excess profits tax. The Commissioner disallowed the capital loss deduction and partially rejected the claim for refund. Iron Fireman then petitioned the Tax Court for review of the Commissioner's determinations.

Issue(s)

1. Whether the capital stock of Iron Fireman of St. Louis, Inc., was worthless at the beginning of the tax year 1940, precluding a loss deduction.
2. Whether the distribution of assets upon the liquidation of Iron Fireman of St. Louis, Inc., constituted a complete liquidation under Section 112(b)(6) of the Internal Revenue Code, thus precluding recognition of a gain or loss.
3. Whether the taxpayer is entitled to restore to its base period income for the years 1937 and 1938, for excess profits tax purposes, replacement expenses in

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those years alleged to be

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