5 T.C. 892 (1945)

A liquidating distribution made by a corporation with no accumulated or current earnings is not a dividend and does not reduce subchapter A net income for personal holding company tax purposes.

Summary

Brooklyn National Corporation, facing potential personal holding company status, dissolved and made liquidating distributions. The corporation argued that these distributions should reduce its subchapter A net income, thereby eliminating any personal holding company surtax. The Tax Court ruled against the corporation, holding that liquidating distributions from a company with no earnings or profits do not qualify as dividends for the purpose of calculating the dividends paid credit, and thus cannot reduce subchapter A net income.

Facts

The Brooklyn National Corporation was a holding company engaged in buying and selling securities. By 1940, more than 50% of its stock was owned by fewer than five individuals. The company had a deficit of $72,100.29 on January 1, 1941, and sustained a net loss of $30,518.06 during the year. The stockholders voted to dissolve the corporation in November 1941, and the corporation made liquidating distributions of $133,980 in each of the years 1941, 1942 and 1943. The company had no accumulated earnings or profits.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the corporation's personal holding company surtax for 1941. The Brooklyn National Corporation petitioned the Tax Court for review, arguing that its liquidating distributions should offset its subchapter A net income. The Tax Court ruled in favor of the Commissioner.

Issue(s)

Whether a liquidating distribution made by a corporation with no accumulated earnings or profits or current year earnings could be treated as a dividend paid, thereby reducing its subchapter A net income and eliminating its liability for personal holding company surtax.

Holding

No, because a liquidating distribution from a corporation with no accumulated earnings or profits does not qualify as a dividend under section 115(a) of the Internal Revenue Code and cannot be used to reduce subchapter A net income.

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Court’s Reasoning

The Tax Court reasoned that the corporation met the definition of a personal holding company under section 501 of the Internal Revenue Code. The court then examined whether the liquidating distribution could reduce the corporation’s subchapter A net income. The court relied on the definition of

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