6 T.C. 804 (1946)

A loss on stock held in a corporation undergoing liquidation is sustained in the year the taxpayer surrenders their stock and receives final payment, even if minor contingent assets of the corporation remain unresolved.

Summary

Stahl surrendered his shares of Indian Company for cancellation in 1941, receiving 65 cents per share as part of a complete liquidation plan. The Commissioner argued that the liquidation wasn't complete because dissenting stockholders later received an additional 10 cents per share through an independent appraisal, and because of settlements from shareholder derivative suits that yielded Stahl $1.99 per share in 1943. The Tax Court held that Stahl's loss was sustained in 1941 because, as to him, the liquidation was practically complete when he surrendered his stock and received the initially offered payment. The court distinguished this from situations where substantial assets remained unrealized.

Facts

- Stahl owned stock in Indian Company.
- Indian Company adopted a plan for complete liquidation.
- In 1941, Stahl surrendered his shares for 65 cents per share.
- Dissenting stockholders pursued an independent appraisal under New Jersey law and received an additional 10 cents per share. Stahl did not participate.
- Shareholder derivative suits were settled in 1943, resulting in Stahl receiving an additional $1.99 per share. Stahl was not a party to the suits.
- Indian Company sold its assets to Cities Service for cash and assumption of liabilities.

Procedural History

The Commissioner determined that Stahl's loss was not sustained in 1941. Stahl petitioned the Tax Court for a redetermination. The Tax Court reviewed the case and ruled in favor of Stahl.

Issue(s)

1. Whether the loss on the petitioner's stock in Indian Company was sustained in 1941 when he surrendered his stock for cancellation and received 65 cents per share.

Holding

1. Yes, because the transaction was closed and completed as to the petitioner when he surrendered his stock and received the contemplated payment, making the liquidation practically complete from his perspective.

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Court’s Reasoning

The court distinguished this case from *Dresser v. United States*, where substantial tangible and intangible assets remained unrealized at the time of distribution. Here, the court found the liquidation was practically complete for Stahl when he surrendered his shares and received the initial payment. The court relied on *Beekman Winthrop*, stating the earlier distribution in 1932 constituted a closed transaction as to the taxpayer, since, as to him, the liquidation of the corporation was, for practical purposes, complete. The additional payment to dissenting shareholders didn’t affect Stahl’s situation because he wasn’t involved in those proceedings. The court acknowledged that shareholder derivative actions might be considered an asset, but their existence didn’t postpone the completeness of the liquidation for Stahl. The court emphasized the “practical test” in determining when losses are sustained, as approved in *Boehm v. Commissioner*. The court noted, “Here Indian had sold all of its assets, except possibly the stockholders’ suits, to Cities Service for cash and the assumption of Indian’s liabilities. On December 29, 1941, petitioner received for the surrender of his Indian stock, his full share of that cash as provided in the plan of complete liquidation.”

Practical Implications

This case provides guidance on when a loss is sustained during corporate liquidation for tax purposes. It highlights that the key is whether the transaction is practically complete from the taxpayer’s perspective, even if minor contingent assets remain. Legal practitioners should analyze similar cases by focusing on when the taxpayer received what was contemplated as their full share under the liquidation plan. Subsequent minor payments or contingent recoveries are less likely to change the year the loss is sustained if the initial distribution appeared to finalize the taxpayer’s involvement. This aligns with the “practical test” endorsed by the Supreme Court in *Boehm v. Commissioner*.

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