6 T.C. 357 (1946)

When corporate distributions exceed a year's earnings, distributions are allocated proportionally between current and accumulated earnings to determine dividend taxability.

Summary

In this tax case, the Tax Court addressed how to determine the source of corporate distributions when a company's distributions during the year exceed its earnings for that year. The court clarified that distributions should be allocated proportionally between the current year's earnings and accumulated earnings from prior years to determine the amount taxable as dividends. This allocation is crucial for proper tax computation under Section 115 of the Revenue Act of 1936 and related regulations.

Facts

Gary Theatre Corporation made two distributions to its shareholders in 1937: one on November 9th, consisting of stock valued at $225,000 (less its $15,828 cost), and another on December 28th for $24,000. The corporation's earnings for 1937, computed as of the end of the year, were $31,911.25. The company's book surplus as of December 31, 1936, which represented earnings accumulated since February 28, 1913, was $45,233.73. The total distributions ($233,172) exceeded the year's earnings. The Commissioner and the taxpayers disagreed on the proper tax treatment of these distributions.

Procedural History

The Tax Court initially heard the case and issued an opinion. After the parties filed recomputations under Rule 50, a supplemental finding was made regarding the value of the distributed stock. The court then addressed the disagreement concerning the allocation of distributions between current and accumulated earnings and their taxability as dividends. The court issued a supplemental opinion to clarify the application of Section 115 of the Revenue Act of 1936.

Issue(s)

1. Whether, when distributions exceed earnings for the taxable year, the distributions should be allocated proportionally between current earnings and accumulated earnings to determine the taxable dividend amount.

Holding

1. Yes, because Section 115 of the Revenue Act of 1936 and Regulations 94, Article 115-2, dictate that when distributions exceed earnings for the year, each distribution is considered to be paid proportionally from current earnings and accumulated earnings.

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Court’s Reasoning

The court relied on Section 115(a) of the Revenue Act of 1936, which defines a

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