6 T.C. 573 (1946)

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Distributions made by a corporation during a period of liquidation, even without formal stock surrender, are treated as distributions in partial liquidation under Section 115(c) of the Revenue Acts, and are includible in income in their full amounts.

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Summary

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Charles H. Thornton, a stockholder in Bankers Farm Mortgage Co., challenged the IRS's determination that distributions he received from the company between 1935 and 1938 were fully taxable as short-term capital gains. The company was in the process of liquidating its assets acquired from a Joint Stock Land Bank. The Tax Court ruled that these distributions were part of a series intended for complete liquidation, thus qualifying as distributions in partial liquidation under Section 115(c) of the Revenue Acts. This meant the distributions were fully includible in Thornton's income for those years.

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Facts

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Bankers Farm Mortgage Co. was incorporated in 1931 to acquire and liquidate the assets of a Joint Stock Land Bank. Thornton was an incorporator, director, and stockholder. From 1932 to 1938, the company sold assets acquired from the Land Bank, distributing the proceeds to stockholders, including Thornton, who received substantial amounts. The company's stated purpose was to liquidate these assets, and it actively disposed of them, reducing its total assets significantly. Thornton did not surrender any stock certificates when he received the distributions. In 1938, new management took over and the company shifted its focus to real estate loans.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in Thornton's income tax for the years 1935-1939, including penalties. Thornton contested the deficiency assessment, arguing the distributions should be treated differently. The Tax Court consolidated the cases and addressed the central issue of the taxability of the distributions.

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Issue(s)

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Whether distributions received by the petitioner from Bankers Farm Mortgage Co. during 1935-1938 were

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