*177 F.2d 819 (7th Cir. 1949)*

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The determination of whether a stock redemption is essentially equivalent to a dividend requires consideration of all relevant factors; no single factor is controlling, and the presence of sufficient earnings and profits alone does not automatically trigger dividend treatment under Section 115(g) of the Internal Revenue Code.

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**Summary**

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The Snite case addresses whether the sale of stock back to a corporation by its shareholders, who were also officers, constituted a stock redemption equivalent to a taxable dividend under Section 115(g) of the Internal Revenue Code. The Seventh Circuit Court of Appeals reversed the Tax Court's determination, holding that the transactions were bona fide sales, not disguised dividends. The court emphasized that the transactions were motivated by the employees' desire to acquire stock and that the shareholders' proportionate ownership was substantially changed, indicating a valid sale rather than a dividend distribution.

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**Facts**

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The Snites, controlling shareholders of Local Loan Co., sold shares of their stock back to the company in 1942 and 1943. These sales were intended to make stock available to key employees who had been seeking a proprietary interest in the business. The employees had been persistently requesting the opportunity to purchase stock, and these requests intensified when salary control measures limited alternative forms of compensation. The stock was sold at a negotiated price, and the company held the stock with the intention of later transferring it to the employees.

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**Procedural History**

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The Commissioner of Internal Revenue determined deficiencies in the Snites' income tax for 1943, arguing that the stock sales were equivalent to taxable dividends. The Tax Court upheld the Commissioner's determination. The Snites appealed to the Seventh Circuit Court of Appeals, which reversed the Tax Court's decision, finding that the transactions were legitimate sales, not disguised dividends.

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**Issue(s)**

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Whether the stock transactions between the Snites and Local Loan Co. constituted sales of stock, or whether they were redemptions of stock that were essentially equivalent to the distribution of taxable dividends under Section 115(g) of the Internal Revenue Code.

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**Holding**

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No, the stock transactions were sales of capital assets, not redemptions equivalent to taxable dividends, because the transactions were primarily motivated by a legitimate business purpose (employee stock ownership), substantially changed the shareholders' proportionate ownership, and did not serve as a substitute for regular dividends.

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**Court's Reasoning**

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The court emphasized that the transactions were driven by the employees' long-standing desire to acquire stock and were not a scheme to avoid taxes. The court considered the following factors: (1) The initiative for the transactions came from the employees, (2) the company had a history of paying regular dividends, (3) the shareholders did not have a compelling need for funds, and (4) the shareholders' proportionate ownership of the company changed substantially as a result of the transactions. The court distinguished the case from those involving

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