11 T.C. 435 (1948)

Payments received by a taxpayer as a result of their stock ownership in a corporation are taxed as ordinary income (dividends) and not as capital gains, even if the underlying corporate activity was initially conceived as a joint venture.

Summary

Lucille Rogers sought to treat proceeds from a shipping venture as capital gains. Rogers had entered into an agreement with American Liberty Steamship Corporation (Liberty) to jointly operate vessels under a War Shipping Administration (WSA) agreement through a corporation, American Range-Liberty Lines, Inc. (Range-Liberty). The Tax Court determined that the arrangement resulted in a stockholder relationship, not a co-adventure. Consequently, proceeds Rogers received upon termination of the corporate activity were taxable as ordinary income, not capital gains. The court emphasized the formal structure of the corporation and Rogers' role as a stockholder.

Facts

Prior to August 1943, Lucille Rogers owned all stock in American Range Lines, Inc. (Range). Range sought allocation of vessels from the WSA. Liberty was also negotiating with the WSA, but neither company fully met the requirements. The WSA suggested a joint operation. On August 16, 1943, Rogers, Range, and Liberty agreed to merge personnel and create $170,000 capital in cash. Range's name changed to American Range-Liberty Lines, Inc. (Range-Liberty). Rogers and Liberty each invested $85,000 and received stock. Disputes arose, and on November 27, 1944, the parties agreed to terminate the arrangement. Liberty paid Rogers $75,000 to cancel the agreement. $11,293.26 was paid by Range-Liberty as one-half of its 1944 earnings, and $8,706.74 was paid by Liberty. Rogers reported the $20,000 as a long-term capital gain.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Rogers' income tax for 1944, arguing the proceeds were ordinary income. Rogers petitioned the Tax Court, contesting the Commissioner's determination. The Tax Court ruled in favor of the Commissioner, holding the proceeds were taxable as ordinary income.

Issue(s)

Whether proceeds received by Rogers from the termination of Range-Liberty's operations under the WSA agreement should be treated as ordinary income or as capital gain.

Holding

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No, because the arrangement resulted in a stockholder relationship, and the proceeds were received as a distribution of corporate earnings, taxable as ordinary income.

Court’s Reasoning

The court reasoned that despite being labeled a “joint venture,” the operation was structured as a corporation. The court emphasized the presence of stockholders, directors, and officers. Rogers participated as a stockholder, not a co-adventurer. The court noted the corporation sold its assets and contract with the WSA, but Rogers retained her stock. The payment to Rogers was equivalent to a dividend. The court cited *United States v. Joliet & Chicago Railroad Co.*, 315 U.S. 44 (1942), stating that stockholders’ rights to proceeds from corporate assets are

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