Imler v. Commissioner, 11 T.C. 836 (1948)

A stock redemption resulting from a genuine contraction of business operations, motivated by legitimate business purposes, is considered a partial liquidation, not a distribution essentially equivalent to a taxable dividend.

Summary

Imler Supply Co. redeemed a portion of its stock after a fire significantly reduced its business operations. The Tax Court determined that the redemption was a partial liquidation under Section 115(c) of the Internal Revenue Code, not a distribution equivalent to a taxable dividend under Section 115(g). The court emphasized the genuine contraction of the business, the legitimate business purpose behind the redemption (reducing operations due to building damage and unprofitable business segment), and the lack of intent to distribute accumulated earnings as dividends. This case helps distinguish between genuine partial liquidations and disguised dividend distributions.

Facts

Imler Supply Co.'s main building was damaged by fire in 1941.
Due to wartime shortages and high costs, the company reduced its 7-story building to 5 stories.
This reduction made the facilities inadequate for retinning and soldering operations.
Retinning and soldering operations had become unprofitable due to war conditions and material shortages.
The company discontinued these operations, reducing its capital needs.
The company used excess insurance proceeds to redeem a portion of its stock.
The company had a history of conservative dividend policy, with no dividends paid since 1934.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency against Imler, arguing the stock redemption was essentially equivalent to a taxable dividend.
Imler petitioned the Tax Court for a redetermination.
The Tax Court ruled in favor of Imler, finding the redemption qualified as a partial liquidation.

Issue(s)

Whether the redemption of Imler Supply Co.'s stock in 1942 was essentially equivalent to the distribution of a taxable dividend under Section 115(g) of the Internal Revenue Code, or whether it constituted a partial liquidation under Section 115(c).

Holding

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No, because the redemption was motivated by a genuine contraction of business operations and served a legitimate business purpose, thus constituting a partial liquidation under Section 115(c).

Court’s Reasoning

The court emphasized that the issue is a question of fact based on the specific circumstances.
The court considered several factors:
– The presence or absence of a real business purpose.
– The motives of the corporation at the time of the distribution.
– The size of the corporate surplus.
– The past dividend policy.
– The presence of any special circumstance relating to the distribution.
The court found that the fire damage and subsequent reduction in business operations constituted a

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