Moorer v. Commissioner, 12 T.C. 270 (1949)

A distribution to a shareholder is not considered a dividend if it represents the repayment of a bona fide loan or the fulfillment of a contractual obligation, even if the distribution is made in the form of stock.

Summary

Moorer sought a redetermination of a deficiency in income tax. The Commissioner determined that a $30,130 credit applied to Moorer's stock purchase account constituted a dividend. Moorer argued it was a repayment of a loan stemming from a 1932 agreement where stockholders "donated" stock to the corporation in exchange for a "contingent claim for services rendered to be paid in stock." The Tax Court held that the credit was not a dividend because it represented the fulfillment of the corporation's obligation to return stock under the 1932 agreement, even though the stock was exchanged in connection with a later stock subscription.

Facts

In 1932, Moorer and other stockholders "donated" stock to Moorlane Co. The directors' resolutions indicated that in exchange for this donation, the stockholders received a "contingent claim for services rendered to be paid in stock in the same amounts as were donated." In 1933, a recapitalization occurred where stockholders surrendered old shares. In 1941, Moorer subscribed to purchase approximately $104,000 in stock. Moorer received a credit of $30,130 on his subscription, which the Commissioner argued was a dividend.

Procedural History

The Commissioner determined a deficiency in Moorer's income tax, arguing that the $30,130 credit was a dividend. Moorer petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether the $30,130 credit applied to Moorer's stock purchase account in 1941 constituted a taxable dividend, or whether it represented the repayment of a loan/obligation arising from the 1932 agreement.

Holding

No, the $30,130 credit was not a dividend because it represented the fulfillment of the corporation's obligation to return stock under the 1932 agreement.

Court's Reasoning

The Tax Court distinguished this case from those where stockholders contribute to

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surplus without an agreement for repayment. The court focused on the 1932 agreement, evidenced by the directors' resolutions, which created an obligation for the corporation to return stock in exchange for the

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