13 T.C. 547 (1949)

A corporation recognizes no deductible loss when it distributes assets to a stockholder in exchange for their stock as part of a partial liquidation, rather than dealing in its own shares as it would those of another corporation.

Summary

Lucius Pitkin, Inc. transferred assets to one of its three stockholders, Tour, in exchange for his one-third stock ownership, which was then canceled. The Tax Court held that this was a partial liquidation, not a sale of assets. The corporation did not deal with its shares as it would with shares of another company. Thus, the corporation sustained no deductible loss. This case clarifies the distinction between a corporation dealing in its own stock and a distribution in partial liquidation.

Facts

Lucius Pitkin, Inc. had three stockholders: Mayo, Wright, and Tour, each owning one-third of the common stock. Due to business disagreements, the corporation agreed to transfer certain equipment and materials worth $5,000 to Tour in exchange for his 333 shares. Additionally, the agreement involved settling various other matters, including patents, royalties, insurance policies, and the division of business operations. Tour's stock was surrendered and canceled. Subsequently, the corporation declared a stock dividend of 334 shares, distributing them equally between Mayo and Wright.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the corporation's income and excess profits tax, disallowing a claimed loss from the distribution of assets. Lucius Pitkin, Inc. petitioned the Tax Court for a redetermination. The Tax Court upheld the Commissioner's determination, finding the transaction to be a distribution in partial liquidation.

Issue(s)

Whether the transfer of assets by Lucius Pitkin, Inc. to Tour in exchange for his stock constituted a sale of assets resulting in a deductible loss, or a distribution in partial liquidation, resulting in no deductible loss.

Holding

No, because the transaction was a distribution in partial liquidation, not a sale of assets, and the corporation did not deal in its own shares as if they were shares of another corporation.

Court's Reasoning

The Tax Court determined that the arrangement among the stockholders was designed to eliminate Tour and his stock from the organization, consistent with prior agreements. The agreement's language indicated a surrender of stock rather than a purchase and sale. The cancellation of Tour's stock complied with the definition of partial liquidation under Section 115(i) of the Internal Revenue Code, which defines it as

