Bond v. Commissioner, 14 T.C. 478 (1950)

A corporation's separate legal existence will be recognized for tax purposes if it engages in real business activity, even if it is closely held or controlled by a single individual.

Summary

Allan Bond sought to carry over a capital loss from 1943 to 1944, arguing that his stock in a corporation became worthless in 1943. The IRS argued that the corporation was merely Bond's alter ego and should be disregarded for tax purposes, thus disallowing the carry-over. The Tax Court held that the corporation was a distinct entity that should be recognized because it engaged in legitimate business activities, such as owning property, filing tax returns, and managing a building. Therefore, Bond was entitled to the capital loss carry-over.

Facts

- Allan Bond owned stock in a corporation with a cost basis exceeding $191,000.
- The corporation was formed in 1926 to acquire title to two properties.
- The corporation held title to the properties until 1943, filed income tax returns annually, borrowed money, erected a 16-story building, executed a mortgage, hired a managing agent, and leased office space.
- In 1943, the corporation contracted to sell its property and executed a deed to the purchasers.
- Bond claimed the stock became worthless in 1943 after the corporation was stripped of its assets, resulting in a capital loss.

Procedural History

Bond initially claimed the loss as a business loss under Section 122(b)(1) of the Internal Revenue Code. After the Tax Court's decision in *Joseph Sic*, he changed his argument to claim a capital loss carry-over under Sections 117(e) and 23(g). The Commissioner disallowed the carry-over, arguing that the corporation's existence should be disregarded. The Tax Court then reviewed the Commissioner's decision.

Issue(s)

1. Whether the corporation should be recognized as a separate entity for tax purposes, or whether it was merely the alter ego of Allan Bond.
2. Whether Allan Bond was entitled to a capital loss carry-over to 1944 due to the worthlessness of the corporate stock in 1943.

Holding

1. Yes, the corporation should be recognized as a separate entity because it engaged in genuine business activities and was not merely a sham or fiction.

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2. Yes, Allan Bond was entitled to carry over to 1944 the capital loss sustained when the stock of the corporation became worthless because the corporation's separate existence was recognized.

Court's Reasoning

The court reasoned that the corporation was not a sham or unreal entity. It was formed to acquire property, held title to the properties for many years, filed tax returns, borrowed money, erected a building, hired a managing agent, and leased office space. These activities demonstrated that the corporation was a legitimate business entity, not merely Bond's alter ego. The court distinguished this case from situations where a corporation is a

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