International Bedaux Co., Inc., Petitioner, v. Commissioner of Internal Revenue, Respondent, 17 T.C. 612 (1951)

A dividend is considered "paid" for tax credit purposes when it is received by the shareholder or their authorized agent, even if the check is not deposited until the following tax year.

Summary

International Bedaux Co., a personal holding company, sought a dividends paid credit for its 1942 tax return. The Commissioner disallowed the credit, arguing the dividends weren't actually paid during the tax year. The Tax Court held that while the mere crediting of dividends to shareholder accounts wasn't sufficient, the delivery of checks to the shareholders' authorized agent constituted payment, entitling the company to a partial dividends paid credit. This case clarifies the requirements for a dividend to be considered "paid" for tax purposes when a holding company seeks a tax credit.

Facts

International Bedaux Co. was a personal holding company with two stockholders, Charles and Fern Bedaux, who were located in Occupied France during 1942. Due to war conditions, they appointed Mrs. Waite as their sole representative with full discretionary powers. In December 1942, the company applied for a license to pay dividends of $39,200 from its blocked bank account. On December 31, 1942, the Treasury Department granted the license. The company then made journal entries crediting the dividend amounts to the stockholders' accounts. Checks totaling $28,400 were issued to the Chase National Bank for deposit into the stockholders' blocked accounts and delivered to Mrs. Waite, who mailed them to the bank on the same day. The bank credited the accounts on January 2, 1943. The stockholders reported the full dividend amount on their 1942 tax returns.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the company's personal holding company surtax, disallowing the dividends paid credit. The company petitioned the Tax Court, contesting the disallowance.

Issue(s)

1. Whether the mere crediting of dividend amounts to the stockholders' accounts on the company's books constituted payment of dividends during the taxable year.

2. Whether the delivery of dividend checks to the authorized agent of the stockholders on December 31, 1942, constituted payment of dividends during the taxable year, even though the checks were not deposited into the stockholders' accounts until January 2, 1943.

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Holding

1. No, because the mere crediting of dividends to the accounts of petitioner's stockholders under the circumstances existing in the instant case did not constitute payments.

2. Yes, because the delivery of checks to the authorized agent constituted payment of dividends to the shareholders during the taxable year.

Court's Reasoning

The court referenced Treasury Regulations 111, Section 29.27(b)-2, which states that a dividend is considered paid when received by the shareholder. The court acknowledged the regulation stating, "The payment of a dividend during the taxable year to the authorized agent of the shareholder will be deemed payment of the dividend to the shareholder during such year." The court distinguished between merely crediting the accounts (which it deemed insufficient) and actual delivery of the checks to the authorized agent. The court reasoned that Mrs. Waite was unquestionably the lawful agent of the stockholders, with full power to receive the checks on their behalf. The fact that the bank didn't credit the accounts until the following year was deemed immaterial; the critical event was the transfer of control of the funds to the agent. The Court stated, "When petitioner's two dividend checks aggregating $28,400 were delivered to Isabella C. Waite as the authorized agent of petitioner's two stockholders, delivery to the two stockholders occurred. Such seems plainly to have been the intention of the parties and there is no valid reason so far as we can see why that intention should not be given its legal effect."

Practical Implications

This case provides guidance on what constitutes payment of dividends for personal holding companies seeking tax credits. It highlights that merely crediting a dividend to a shareholder's account is not sufficient. However, delivering a check to the shareholder or their authorized agent constitutes payment, even if the funds are not immediately available to the shareholder (e.g., due to deposit delays). This ruling impacts how companies structure dividend payments at year-end to ensure they qualify for the dividends paid credit. Later cases applying this ruling would likely focus on whether the recipient was truly an authorized agent and whether the company relinquished control of the funds during the tax year in question.

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