Seaboard Finance Co. v. Commissioner, 20 T.C. 405 (1953)

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When a taxpayer purchases foreign currency to fulfill a contractual obligation, and the exchange rate fluctuates between the purchase of the currency and its application to the obligation, the tax consequences depend on whether the currency was directly used to satisfy the obligation or was part of a more complex transaction; direct use at the same exchange rate results in no gain or loss.

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Summary

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Seaboard Finance Co. guaranteed a fixed Canadian dollar amount for a stock purchase. It bought Canadian dollars to cover this guarantee. The tax court addressed whether Seaboard realized a taxable gain due to fluctuations in the Canadian exchange rate between the purchase and use of these dollars. The court held that no taxable gain occurred, reasoning that either the Canadian dollars were directly used for the purchase at effectively the same exchange rate (resulting in no gain), or any potential gain was offset by related losses in the underlying stock transaction. The court emphasized that Seaboard was ultimately neither better nor worse off due to currency fluctuations.

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Facts

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Seaboard Finance Co. committed to purchasing stock of a Canadian corporation (Campbell stock).r
Seaboard guaranteed the seller $2,214,969.94 in Canadian dollars.r
This amount was to be realized first from the sale of 100,000 of Seaboard’s shares, sold by Seaboard, and second from Seaboard making good any deficit.r
Seaboard deposited $2,200,000 (Canadian) in escrow as security.r
Seaboard purchased the $2,200,000 Canadian for $2,000,000 U.S. almost immediately after the agreement.r
Seven months later, after Seaboard’s stock was marketed for less than the guaranteed price, Seaboard authorized applying the deposit to the purchase price.r

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Seaboard’s tax return, arguing no gain was realized on the foreign exchange transaction.r
Seaboard petitioned the Tax Court for a redetermination, claiming a gain occurred in Canada that entitled it to a credit against its U.S. tax.r

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Issue(s)

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Whether Seaboard realized a taxable gain due to fluctuations in the Canadian exchange rate when it purchased Canadian dollars to fulfill a contractual obligation to purchase stock.r

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Holding

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No, because either the Canadian dollars were directly used at effectively the same exchange rate (resulting in no gain), or any potential gain was offset by related losses in the stock transaction. The court also suggested alternative theories, such as viewing the transaction as a borrowing and repayment, which would also negate any gain.r

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Court’s Reasoning

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The court reasoned that if the Canadian dollars were used directly to pay the

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purchase price, no gain or loss on foreign exchange could have resulted because the exchange rate was the same at the time of purchase of both the Campbell stock and the Canadian dollars. Applying the principle from cases like Bernuth Lembcke Co., the cost of the Campbell stock should be calculated using the exchange rate at the time of purchase. The court stated that the cost of the Campbell stock would be the $2,214,969.94 Canadian converted into United States dollars at the rate of exchange prevailing on the date of purchase, March 27, 1946. The court further stated, “If, on the one hand, the Canadian dollars were actually used to pay the purchase price, then no gain or loss on foreign exchange could have resulted… in view of the fact that the exchange rate on the date of purchase of the Campbell stock and of the Canadian dollars was apparently identical.” Alternatively, if the use of Canadian dollars was a

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