F.E. Gooding Co. v. Commissioner, 23 T.C. 707 (1955)

A stock distribution of common on common is not considered a distribution of earnings and profits, and is therefore not includible in equity invested capital for excess profits tax purposes.

Summary

The case involves a dispute over the calculation of a corporation's equity invested capital for excess profits tax purposes. The primary issue is whether a pre-1913 pro rata stock distribution of common on common stock should be included in the calculation. The Tax Court held that such distributions are not considered distributions of earnings and profits and are, therefore, not includible. The court reaffirmed its prior position, despite a contrary ruling from the Court of Appeals for the Sixth Circuit in a similar case. The second issue concerned whether the corporation was entitled to include an amount for goodwill acquired from a predecessor partnership in its equity invested capital. The court found that insufficient evidence was presented to establish the value of goodwill transferred and sided with the Commissioner.

Facts

F.E. Gooding Co. sought to include a pre-March 1, 1913, pro rata stock distribution of common on common stock in its equity invested capital for excess profits tax purposes under Section 718 of the Internal Revenue Code of 1939. The company had losses subsequent to March 1, 1913, which, if the stock distribution were included, would increase its equity invested capital as accumulated earnings and profits. The company also claimed it was entitled to include goodwill in its equity invested capital, representing the difference between the fair market value of the predecessor partnership's assets and the par value of the stock issued in exchange. No evidence was offered to establish the fair market value of the partnership assets or the corporation's stock at the time of the incorporation.

Procedural History

The case was heard in the Tax Court. The Tax Court had previously ruled on a similar issue in "Owensboro Wagon Co.", where it held against the taxpayer. The Tax Court reaffirmed its prior position even though it was later reversed by the Sixth Circuit Court of Appeals. The Commissioner of Internal Revenue disallowed the inclusion of the stock distribution in equity invested capital and also rejected the goodwill claim. The Tax Court sustained the Commissioner's decisions.

Issue(s)

1. Whether a pre-March 1, 1913, pro rata stock distribution of common on common should be included in the equity invested capital for excess profits tax purposes as a distribution of earnings and profits.

2. Whether the taxpayer is entitled to include goodwill, acquired from a predecessor partnership, in its equity invested capital.

Holding

1. No, because the Tax Court held that the distribution of common on common is not a distribution of earnings and profits, and, therefore, is not includible in equity invested capital under section 718(a)(3).

2. No, because the evidence did not establish any amount for goodwill transferred to petitioner from the partnership.

Court’s Reasoning

The court addressed the issue of the stock distribution by reaffirming its earlier ruling in "Owensboro Wagon Co." and "Geo. W. Ultch Lumber Co." that distributions of common on common stock are not considered distributions of earnings and profits. The court acknowledged the contrary opinion of the Sixth Circuit but remained unconvinced of any error in its position. The court cited the statutory concept of equity invested capital and referenced that specific items to be included therein are set out in the statute. The court explained that goodwill is properly includible as part of paid-in capital, but in this case, the evidence did not establish any amount for goodwill. The court pointed out that the taxpayer failed to provide evidence of the fair market value of the partnership assets or the corporation’s stock at the time of incorporation. The court noted that there was no evidence of any value ascribed to goodwill by the predecessor partnership.

Practical Implications

This case is significant for understanding how to calculate equity invested capital for tax purposes. The holding confirms that stock dividends of common on common stock, issued before March 1, 1913, do not qualify as distributions of earnings and profits for determining equity invested capital. The case also clarifies the evidentiary requirements for establishing goodwill in corporate acquisitions. Legal practitioners must carefully document all valuations and transfers when claiming goodwill. If a company wants to include goodwill in its equity invested capital, it must provide detailed records. Subsequent cases dealing with stock dividends and the valuation of goodwill will likely cite this case, especially those under similar factual circumstances.

Meta Description

This Tax Court case explains how pre-1913 stock dividends and goodwill valuation affect a corporation’s equity invested capital for tax purposes.

Tags

F.E. Gooding Co., Tax Court, 1955, Stock Dividend, Equity Invested Capital, Goodwill, Corporate Taxation

