***Tobey v. Commissioner*, 26 T.C. 616 (1956)**

The court determined the tax treatment of short sales of securities made under a collateral agreement and whether interest accrued on bonds after their purchase constituted ordinary income or capital gain upon redemption.

Summary

The case concerns a taxpayer, Allen Tobey, who entered into an agreement with a customer, Anne Collins, to facilitate capital for his brokerage firm. Under the agreement, Collins provided securities to Tobey, which the firm then used. The IRS determined that Tobey had realized short-term capital gains from the sale of securities related to the agreement. The court disagreed, finding the transactions were for Collins's account. Additionally, the court addressed the taxability of accrued interest on bonds Tobey purchased. The court held that interest accrued after the purchase of the bonds constituted ordinary income, not capital gain, when the bonds were redeemed.

Facts

Allen Tobey, a senior partner in a brokerage firm, entered into an agreement with Anne Collins, a customer, to obtain additional capital for the firm. Collins provided cash and securities under the agreement, and the firm could use the securities as if they were its own. Collins retained the right to demand the return of securities, substituting equivalent value. Securities provided by Collins were used in what the IRS considered

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