Bradbury v. Commissioner, 23 T.C. 957 (1955)

Whether a stock redemption is essentially equivalent to a taxable dividend is determined by a factual analysis considering the circumstances of each case and whether the redemption substantially alters the shareholder's interest in the corporation.

Summary

The case concerns whether a stock redemption, where a shareholder's debt to the corporation was cancelled in exchange for the stock, should be treated as a taxable dividend under Section 115(g) of the Internal Revenue Code of 1939. The court determined that the redemption was essentially equivalent to a dividend because, despite the reduction in the shareholder's stock ownership, the redemption did not significantly alter his control or economic interest in the corporation, and it was made out of accumulated earnings. The court analyzed various factors, including the existence of accumulated earnings, lack of dividend history, and the close relationship among shareholders, to conclude that the transaction was essentially a distribution of corporate profits, rather than a bona fide redemption.

Facts

The petitioner, Mr. Bradbury, owned stock in Florex Gardens, a corporation. He had outstanding debts to Florex. Florex redeemed a portion of Bradbury's stock in exchange for the cancellation of his debt. The redemption reduced Bradbury's percentage of ownership from 36.5% to less than 10%. The corporation had substantial accumulated earnings but had not paid dividends for many years. Bradbury's son and daughter also held stock in the corporation. Bradbury had loaned money to the corporation over time, which created an understanding for access to the corporate surplus.

Procedural History

The Commissioner of Internal Revenue determined that the redemption was essentially equivalent to a taxable dividend and assessed a deficiency. Bradbury contested this, leading to a trial in the Tax Court.

Issue(s)

1. Whether the redemption of Bradbury's stock was

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