Estate of Edwin A. Gregg, 33 T.C. 37 (1959)

Under the Internal Revenue Code, a U.S. citizen who owns a controlling interest in a foreign corporation can be taxed on the corporation's undistributed income if the corporation is deemed a "foreign personal holding company."

Summary

The case involves a U.S. citizen, Edwin A. Gregg, who owned a significant portion of a Canadian corporation, Hekor. The IRS sought to tax Gregg on Hekor's undistributed net income, claiming Hekor was a foreign personal holding company. The Tax Court held that Hekor met the criteria because Gregg owned over 50% of the company's stock, thus making Gregg liable for the tax on the undistributed income. The court rejected Gregg's arguments that the statute should not be applied literally or that it was unconstitutional, emphasizing that the plain meaning of the statute controlled.

Facts

Edwin A. Gregg, a U.S. citizen, owned 9,500 of the 10,000 shares of Hekor, a Canadian corporation. The remaining 500 shares were owned by a French citizen. Hekor had undistributed Supplement P net income for several years. The IRS determined that Hekor was a foreign personal holding company and taxed Gregg on his proportionate share of the undistributed income.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Gregg's income tax based on his share of Hekor's undistributed income. Gregg challenged the determination in the U.S. Tax Court. The Tax Court ruled in favor of the Commissioner, upholding the tax assessment.

Issue(s)

1. Whether Hekor was a foreign personal holding company under section 331(a)(2) of the Internal Revenue Code, considering the stock ownership test.

2. Whether the statutes involved should be construed to tax the petitioner on Hekor's undistributed income.

3. Whether the application of the foreign personal holding company provisions to Gregg was unconstitutional, violating the Fifth and Sixteenth Amendments.

4. Whether, even if Hekor were a foreign personal holding company, Gregg could be taxed on the undistributed income earned before he acquired the shares.

Holding

1. Yes, Hekor was a foreign personal holding company because Gregg owned more than 50% of the corporation's stock.

2. Yes, Gregg was taxable on the undistributed income because the statute's plain language applied.

3. No, the application of the statute did not violate the Constitution.

4. Yes, Gregg was taxable on the portion of the undistributed income for the entire year, even the period before his ownership.

Court's Reasoning

The court relied on a clear statutory interpretation, concluding Hekor met the definition of a foreign personal holding company because Gregg owned 95% of the stock. The court rejected Gregg's argument that

