33 T.C. 622 (1959)

The holding period for capital gains purposes begins when ownership of the stock begins, and an option to repurchase stock does not constitute a present interest in the stock.

Summary

In 1948, Max Wyman sold stock in his family corporation to a friend with an oral agreement that he could repurchase it for a fixed price. Wyman repurchased the stock in 1951, within six months of the corporation's liquidation. He claimed that part of the liquidation proceeds should be treated as a long-term capital gain, arguing that he retained a beneficial interest in the stock from 1948. The Tax Court held that the entire gain was a short-term capital gain because Wyman's holding period began only when he repurchased the stock, not when he made the initial sale and retained the option.

Facts

Max Wyman, along with his father and brother, formed a lumber partnership that was later incorporated as Klamath Basin Pine Mills Corporation. Wyman owned one-third of the corporation's stock. In 1948, Wyman sold 5,000 shares of his stock to a friend, Loren Haynes, for $5,000, with an oral agreement that Wyman could repurchase the shares at any time for $10,000. Haynes received all dividends and gave Wyman proxies to vote the shares. In 1951, Klamath Basin was liquidated. Wyman repurchased the 5,000 shares from Haynes for $10,000 just before the liquidation. Upon liquidation, Wyman received assets with a fair market value related to the 5,000 shares of $46,930.77.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Wyman's income tax for 1951, treating the gain from the liquidation of the 5,000 shares as a short-term capital gain. Wyman petitioned the United States Tax Court, arguing for long-term capital gains treatment based on his claimed retained interest in the stock from the original 1948 sale to Haynes. The Tax Court ruled in favor of the Commissioner.

Issue(s)

Whether Wyman held an interest in the 5,000 shares of stock for more than six months prior to the liquidation of Klamath Basin, entitling him to long-term capital gains treatment?

Holding

No, because Wyman's holding period for the 5,000 shares began when he repurchased the stock from Haynes in 1951, not when he initially sold it in 1948 and

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retained an option to repurchase.

Court’s Reasoning

The court determined that the 1948 transaction between Wyman and Haynes was a sale of stock coupled with an option for Wyman to repurchase. It emphasized that under Washington law, where the corporation was incorporated, the certificate represented the stock itself. Haynes held the certificate, received dividends, and gave Wyman a proxy, all of which are indicative of ownership. The court cited that Wyman

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