Raynor v. Commissioner, 50 T. C. 762 (1968)

Shareholder advances proportionate to nominal stock interests do not create a second class of stock for Subchapter S corporations.

Summary

In Raynor v. Commissioner, the Tax Court addressed whether shareholder advances to Subchapter S corporations created a second class of stock, which would disqualify the corporations from Subchapter S status. The case involved three corporations that suffered net operating losses, and the shareholders sought to deduct these losses. The court held that the corporations maintained Subchapter S status because the advances were intended to be proportionate to stock ownership, despite being recorded as loans. However, only direct advances from shareholders, not third-party loans, could be considered for calculating the shareholders' basis for loss deductions.

Facts

Harold Vineberg and Peter De Met organized five bowling alley ventures, three of which (Congress Lanes, Inc. , Sky Bowl, Inc. , and Lakeland Lanes, Inc.) were at issue. These corporations elected Subchapter S status. Milton Raynor invested in two of these corporations. The corporations experienced financial difficulties and recorded net operating losses. Shareholders advanced funds and lent their credit to secure loans from third parties, which were recorded in a single

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