***Bennett v. Commissioner, 58 T. C. 381 (1972)***

A corporate stock redemption arranged through a shareholder acting as a conduit is not treated as a dividend distribution to that shareholder.

**Summary**

Richard Bennett, a minority shareholder in a Coca-Cola bottling company, facilitated the redemption of the majority shareholder's stock by acting as a conduit. The IRS argued that this transaction resulted in a taxable dividend to Bennett. However, the Tax Court held that Bennett did not personally acquire the stock or incur any obligation to pay for it, thus the transaction was not essentially equivalent to a dividend. The court emphasized the substance over the form of the transaction, focusing on Bennett's role as an agent for the corporation.

**Facts**

Richard Bennett owned 275 out of 1,500 shares in the Coca-Cola Bottling Co. of Eau Claire, Inc. , with the majority, 1,000 shares, held by Robert T. Jones, Jr. and his family. In 1965, Jones wanted to sell his shares. Bennett, unable to personally finance the purchase, arranged for the corporation to redeem the Jones shares. The transaction was structured such that Bennett temporarily held the Jones shares before they were immediately redeemed by the corporation, which borrowed the necessary funds from a bank.

**Procedural History**

The IRS determined a tax deficiency against Bennett, asserting that the transaction resulted in a taxable dividend. Bennett petitioned the U. S. Tax Court, which ruled in his favor, holding that the transaction was not essentially equivalent to a dividend.

**Issue(s)**

1. Whether the transaction, where Bennett facilitated the redemption of Jones's stock, resulted in a distribution essentially equivalent to a dividend to Bennett under section 302(b)(1) of the Internal Revenue Code.

**Holding**

1. No, because Bennett acted merely as a conduit for the corporation in the redemption of Jones's stock, and did not personally acquire the stock or incur any obligation to pay for it.

**Court's Reasoning**

The court focused on the substance of the transaction, noting that Bennett did not have the financial means to buy the Jones stock and did not intend to do so. The

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court distinguished this case from others where shareholders had personal obligations to buy stock, emphasizing that Bennett acted solely as an agent of the corporation. The court applied the rule that a distribution is not treated as a dividend if it is not essentially equivalent to one, and cited cases like *Fox v. Harrison* to support its conclusion that Bennett was merely a conduit. The court also rejected the IRS's argument that Bennett's momentary ownership of the stock constituted a taxable event, as he never had beneficial ownership.

**Practical Implications**

This decision clarifies that when a shareholder acts solely as an agent or conduit for a corporation in a stock redemption, the transaction should not be treated as a dividend to that shareholder. Legal practitioners should focus on the substance of such transactions, ensuring that any intermediary role is clearly documented as agency. This ruling may encourage similar arrangements in closely held corporations seeking to buy out shareholders without triggering immediate tax liabilities. Subsequent cases have cited *Bennett* to distinguish between transactions where shareholders are mere conduits versus those where they have personal obligations or gain from the transaction.

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