W.W. Windle Co. v. Commissioner, 65 T.C. 694 (1976)

Corporate stock purchased with a substantial investment motive is considered a capital asset, even if the primary motive for the purchase is a business purpose, such as securing a source of supply or a customer.

Summary

W.W. Windle Co., a wool processing business, purchased 72% of the stock of Nor-West to secure a captive customer for its wool. When Nor-West failed and the stock became worthless, Windle sought to deduct the loss as an ordinary business loss. The Tax Court held that because Windle had a substantial investment motive, even though its primary motive was business-related, the stock was a capital asset. Therefore, the loss was a capital loss, not an ordinary loss. This case clarifies that even a secondary investment motive can prevent stock from being considered a non-capital asset under the *Corn Products* doctrine.

Facts

Petitioner, W.W. Windle Co., processed and sold raw wool. Facing declining sales in a struggling woolen industry, Windle sought to secure customers. One former customer, Portland Woolen Mills, went out of business. Windle investigated forming a new woolen mill and created Nor-West, purchasing 72% of its stock. Windle expected Nor-West to purchase all its wool from Windle, generating significant sales profits. Windle also projected Nor-West would be profitable, anticipating dividends and stock appreciation. While the primary motive was to create a captive customer, Windle also had an investment motive. Nor-West struggled and ultimately failed, rendering Windle's stock worthless.

Procedural History

W.W. Windle Co. sought to deduct the loss from the worthless Nor-West stock as an ordinary business loss on its tax return. The Commissioner of Internal Revenue disallowed the ordinary loss deduction, arguing it was a capital loss. The case was brought before the Tax Court of the United States.

Issue(s)

1. Whether stock purchased primarily for a business purpose (to secure a customer) but also with a substantial investment motive is a capital asset, such that its worthlessness results in a capital loss rather than an ordinary loss.
2. Whether loans and accounts receivable extended to the failing company were debt or equity for tax purposes.

Holding

1. Yes. Stock purchased with a substantial investment purpose is a capital asset

© 2025 SCOTUSreports.com. All rights reserved.

even if the primary motive is a business motive, therefore the loss is a capital loss.
2. Debt. The loans and accounts receivable were bona fide debt, not equity contributions, and thus the losses were deductible as business bad debts.

Court's Reasoning

The court relied on the *Corn Products Refining Co. v. Commissioner* doctrine, which broadened the definition of ordinary assets beyond the explicit exclusions in section 1221 of the Internal Revenue Code for assets integrally related to a taxpayer's business. However, the court distinguished cases where stock was purchased *solely* for business reasons. The court found that Windle had a "substantial subsidiary investment motive." Even though Windle's primary motive was business-related (securing a customer and sales), the existence of a substantial investment motive meant the stock could not be considered an ordinary asset. The court reasoned that expanding the *Corn Products* doctrine to mixed-motive cases would create uncertainty and allow taxpayers to opportunistically claim ordinary losses on failed investments while treating successful ones as capital gains. The court stated, "where a substantial investment motive exists in a predominantly business-motivated acquisition of corporate stock, such stock is a capital asset." Regarding the debt issue, the court applied several factors (debt-to-equity ratio, loan terms, repayment history, security, etc.) and concluded that the advances were bona fide debt, not equity contributions. The court emphasized factors like the notes bearing interest, actual interest payments, and some repayments as evidence of debt.

Practical Implications

W.W. Windle Co. clarifies the "source of supply" or "captive customer" exception to capital asset treatment under the *Corn Products* doctrine. It establishes a stricter standard, requiring not just a primary business motive, but the *absence* of a substantial investment motive for stock to be treated as a non-capital asset. This case is important for businesses acquiring stock in other companies for operational reasons. Legal professionals must advise clients that even if the primary reason for stock acquisition is business-related, the presence of a significant investment motive will likely result in the stock being treated as a capital asset. This impacts tax planning for potential losses on such stock, limiting deductibility to capital loss treatment rather than more favorable ordinary loss treatment. Later cases have cited *Windle* to emphasize the importance of analyzing both business and investment motives when determining the capital asset status of stock acquired for business-related reasons.

© 2025 SCOTUSreports.com. All rights reserved.