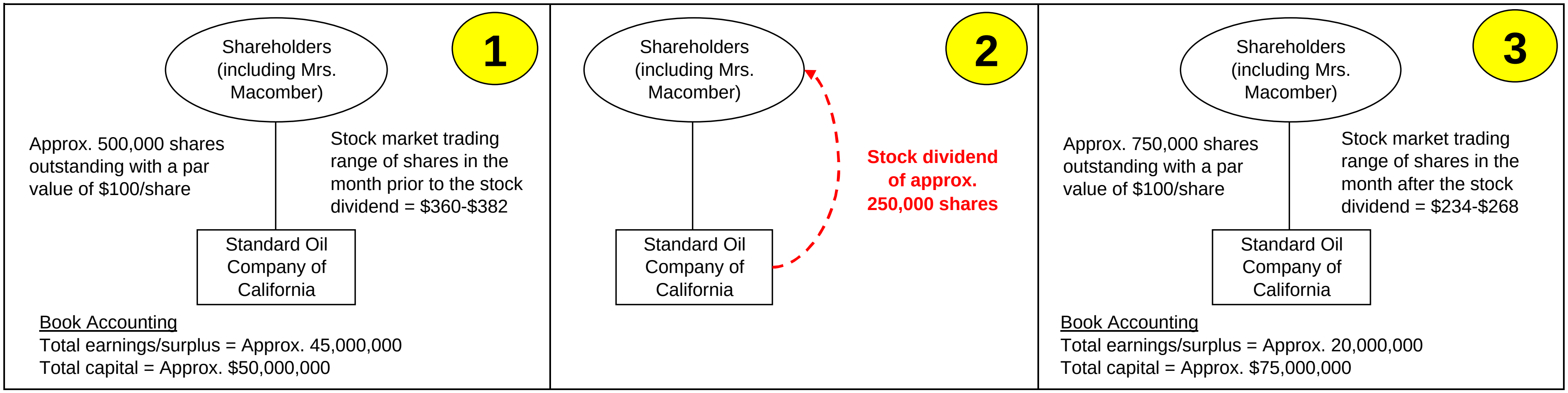
Eisner v. Macomber
252 U.S. 189 (1920)

Stock Dividends Are Not Taxable
(a first attempt at defining income)

Initial Structure (Dec. 31, 1915) **Stock Dividend (Jan. 1, 1916)** **Ending Point**



The following is an excerpt from Eisner v. Macomber:

This case presents the question whether . . . Congress has the power to tax . . . a stock dividend . . .

. . . "A stock dividend really takes nothing from the property of the corporation, and adds nothing to the interests of the shareholders. Its property is not diminished, and their interests are not increased. . . . The proportional interest of each shareholder remains the same. The only change is in the evidence which represents that interest, the new shares and the original shares together representing the same proportional interest that the original shares represented before the issue of the new ones." . . . In short, the corporation is no poorer and the stockholder is no richer than they were before. . . . What has happened is that the . . . old certificates have been split up in effect and have diminished in value to the extent of the value of the new.

The fundamental relation of "capital" to "income" has been much discussed by economists, the former being likened to the tree or the land, the latter to the fruit or the crop; the former depicted as a reservoir supplied from springs, the latter as the outlet stream, to be measured by its flow during a period of time. For the present purpose we require only a clear definition of the term "income," as used in common speech . . . After examining dictionaries in common use . . . we find little to add to the succinct definition adopted in two cases . . . "Income may be defined as the gain derived from capital, from labor, or from both combined," provided it be understood to include profit gained through a sale or conversion of capital assets . . .

. . . [T]he corporation had surplus and undivided profits . . . amounting to about $45,000,000 . . . This may be adjusted upon the books . . . by declaring a "stock dividend." This . . . is no more than a book adjustment . . . ; no part of the assets of the company is separated from the common fund, nothing distributed except paper certificates that evidence an antecedent increase in the value of the stockholder's capital interest resulting from an accumulation of profits by the company, but profits so far absorbed in the business as to render it impracticable to separate them for withdrawal and distribution. . . . The new certificates simply increase the number of the shares, with consequent dilution of the value of each share. . . . The essential and controlling fact is that the stockholder has received nothing out of the company's assets for his separate use and benefit . . .