

Estate of Putnam v. Commissioner
324 U.S. 393 (1945)

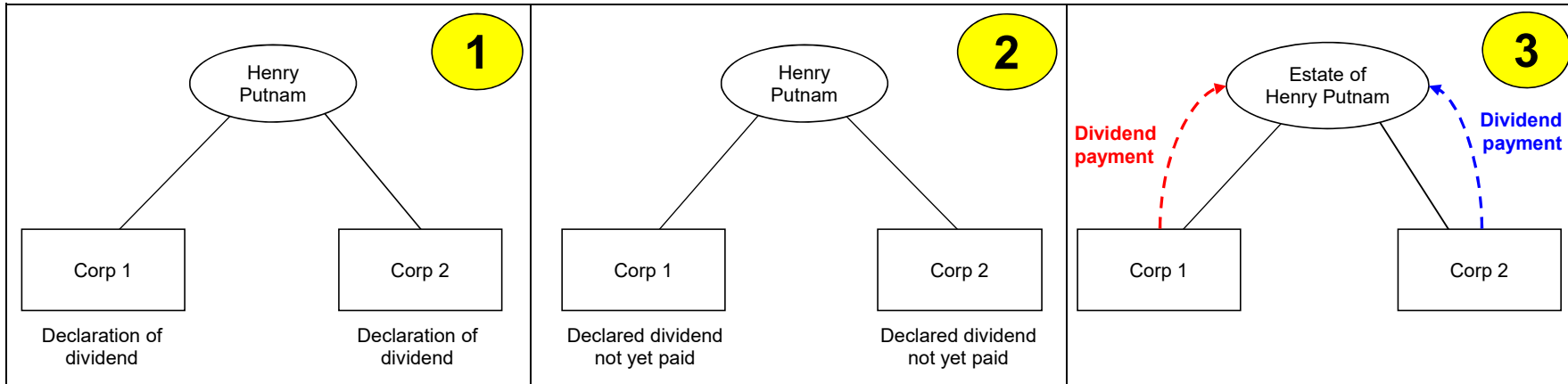
Dividend Declared But Not Paid Is Not Yet Taxable

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Dividend Declarations
(Before March 30, 1938)

Death of Henry Putnam
(March 30, 1938)

Payment of Dividend
(After March 30, 1938)



The decedent, Henry W. Putnam, died on March 30, 1938. Prior to his death several corporations in which he owned stock declared dividends which by the resolutions were payable and were paid to stockholders of record on dates which were subsequent to his death. The issue in the case was whether a dividend accrues as income on its declaration with a subsequent record date or whether it accrues on its record date or its payment date. The Court stated the following:

This Court has suggested that a tax be deemed to accrue as a charge against a taxpayer when events "occur which fix the amount of the tax and determine the liability of the taxpayer to pay it." *United States v. Anderson*, * * *. It has said also that accrual imports "that it is the right to receive and not the actual receipt that determines the inclusion of the amount in gross income." *Spring City Foundry Co. v. Commissioner* * * *. The declaration of the dividends here in question fixes their amount but does not determine the distributee. He cannot be known with certainty until the record date. Nor does the stockholder have the right to receive payment upon the declaration. The words of the corporate resolution which arranges for the payment from the stock record of a certain day determines the earliest time for possible receipt.

Under the income tax acts no stockholder has a separate and divisible taxable interest in the assets of a corporation even though those assets have been increased by earnings. Earnings, before declaration of dividends, while increasing the value of his stock, have never been treated as an event to mark taxable income to the stockholder. Mere declaration of a dividend does not alter the stockholder's interest in the corporate assets. * * * The stockholder can acquire no interest in a dividend, amounting to an accrual * * *, before the amount of the dividend and the distributee is determined.

* * * It is not the earnings of a corporation but the separation of those earnings by a completed dividend which assigns a part of those earnings to a stockholder. * * * For the earnings of a corporation to pass into the earnings of its stockholder, so as to be subject to accrual to the stockholder * * * something more than a declaration of dividends with a subsequent record date to identify the distributee is required. Such a declaration leaves the identity of the recipient at large. Such uncertainty destroys any conception of accrued as involving a right to receive or an obligation to pay, elements which we think are essential for accruals under our decisions.