

**Goodrich Vs. Edwards**

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**Court :** US Supreme Court

**Decided On :** Mar-28-1921

**Appeal No. :** 255 U.S. 527

**Appellant :** Goodrich

**Respondent :** Edwards

**Judgement :**

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U.S. Supreme Court Goodrich v. Edwards, 255 U.S. 527 (1921)

**Goodrich v. Edwards**

**No. 663**

**Argued March 10, 11, 1921**

**Decided March 28, 1921**

**255 U.S. 527**

*ERROR TO THE DISTRICT COURT OF THE UNITED STATES*

*FOR THE SOUTHERN DISTRICT OF NEW YORK*

## SYLLABUS

1. Profit realized upon the sale of stocks held as an investment is income, and so much of it as accrued after March 1, 1913, is taxable under the Income Tax Laws of 1916, 1917, and the Sixteenth Amendment. P. [255 U. S. 534](#) . *Merchants' Loan & Trust Co. v. Smietanka, ante, [255 U. S. 509](#)* .

2. The statute imposes the income tax on the proceeds of a sale of personal property to the extent only that gains are derived therefrom by the vendor, and 2(c) is applicable only where a gain over the original capital investment has been realized after March 1, 1913. P. [255 U. S. 535](#) .

Reversed in part, affirmed in part.

The case is stated in the opinion.

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MR. JUSTICE CLARKE delivered the opinion of the Court.

The plaintiff in error sued the defendant, a collector of internal revenue, to recover income taxes assessed in 1920 for the year 1916 and paid under protest to avoid penalties. A demurrer to the complaint was sustained, and the constitutional validity of a law of the United States is so involved that the case is properly here by writ of error. *Towne v. Eisner, [245 U. S. 418](#)* .

Two transactions are involved.

(1) In 1912, the plaintiff in error purchased 1,000 shares of the capital stock of a mining company for which he paid \$500. It is averred that the stock was worth \$695 on March 1, 1913, and that it was sold in March, 1916, for \$13,931.22. The tax which the plaintiff in error seeks to recover was assessed on the difference between the

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value of the stock on March 1, 1913, and the amount for which it was sold.

(2) The plaintiff in error, being the owner of shares of the capital stock of another corporation, in 1912 exchanged them for stock in a reorganized company of the then value of \$291,600. It is averred and admitted that, on March 1, 1913, the value of this stock was \$148,635.50, and that it was sold in 1916 for \$269,346.25. Although it is thus apparent that the stock involved was of less value on March 1, 1913, than when it was acquired, and that it was ultimately sold at a loss to the owner, nevertheless the collector assessed the tax on the difference between the value on March 1, 1913, and the amount for which it was sold.

The plaintiff in error seeks to recover the whole of these two assessments.

The same contention is made with respect to each of these payments as was made in No. 608, *Merchants' Loan & Trust Co. v. Smietanka*, ante, [255 U. S. 509](#), viz., that the amounts realized from the sales of the stocks were, in their inherent nature, capital, as distinguished from income, being an increment in value of the securities while owned and held as an investment, and therefore not taxable under the Revenue Act of 1916 (39 Stat. 756), as amended in 1917 (40 Stat. 300), or under any constitutional law.

With respect to the first payment. It is plain that this assessment was on the profit accruing after March 1, 1913, the effective date of the act, realized to the owner by the sale after deducting his capital investment. The question involved is ruled by No. 608, *supra*, and the amount was properly taxed.

As to the second payment. The government confesses error in the judgment with respect to this assessment. The stock was sold in the year for which the tax was assessed for \$22,253.75 less than its value when it was

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acquired, but for \$120,710.75 more than its value on March 1, 1913, and the tax was assessed on the latter amount.

The act under which the assessment was made provides that the net income of a

"taxable person shall include *gains*, profits, and income derived from . . . sales or dealings in property, whether real or personal . . . or *gains* or profits and income derived from any source whatever."

9 Stat. 757; 40 Stat. 300, 307.

Section 2(c) of this same act provides that

"for the purpose of ascertaining the gain derived from the sale or other disposition of property, real, personal, or mixed, acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such gain derived."

And the definition of "income" approved by this Court is:

"The *gain* derived from capital, from labor, or from both combined,' provided it be understood to include profits gained through sale or conversion of capital assets."

*Eisner v. Macomber*, [252 U. S. 189](#) , [252 U. S. 207](#) .

It is thus very plain that the statute imposes the income tax on the proceeds of the sale of personal property to the extent only that gains are derived therefrom by the vendor, and we therefore agree with the Solicitor General that, since no gain was realized on this investment by the plaintiff in error, no tax should have been assessed against him.

Section 2(c) is applicable only where a gain over the original capital investment has been realized after March 1, 1913, from a sale or other disposition of property.

It results that the judgment of the district court as to the first assessment, as we have described it, is affirmed, that as to the second assessment it is reversed, and the case

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is remanded to that court for further proceedings in conformity with this opinion.

*Reversed in part.*

*Affirmed in part.*

MR. JUSTICE HOLMES and MR. JUSTICE BRANDEIS, because of prior decisions of the Court, concur only in the judgment.

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