

as the line drawn at the point to which the river recedes at its lowest stage without reference to extreme droughts. The costs will be divided between the parties in accordance with the general rule in cases of this kind. *Michigan v. Wisconsin, supra*, 319; *North Dakota v. Minnesota*, 263 U.S. 583. The parties, or either of them, if so advised, may, within thirty days, submit the form of decree to carry this opinion into effect, failing which the Court will prepare and enter the decree.

*It is so ordered.*

The CHIEF JUSTICE took no part in the consideration or decision of this case.

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TAIT, COLLECTOR OF INTERNAL REVENUE, *v.*  
WESTERN MARYLAND RAILWAY CO.

CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE  
FOURTH CIRCUIT.

No. 842. Argued May 12, 1933.—Decided May 29, 1933.

1. In computing income tax, the Commissioner of Internal Revenue and Board of Tax Appeals denied the right of a corporation to deduct from gross income an amortized proportion of the discount on sales of bonds by its predecessors. On appeal to the Circuit Court of Appeals the right was sustained. *Held* that the judgment worked an estoppel against the United States and the Collector in later litigation with the corporation, as to its right to make like deductions for subsequent years under the same statutory provisions and Treasury regulations. Pp. 623, 625.
2. It will not be inferred that Congress, merely by adopting the scheme of annual tax periods, and without express declaration of purpose, intended to abolish the doctrine of *res judicata* in tax cases and thus to deprive Government and taxpayer of relief from redundant litigation of identical questions as to the liability of the same taxpayer under the same taxing provisions. *United States v. Stone & Downer*, 274 U.S. 225, respecting *res judicata* in tariff cases, distinguished. P. 624.

620

Opinion of the Court.

3. The effect of *res judicata* can not be avoided by showing that an inadvertent or erroneous concession was made at the former trial as to the materiality, bearing or significance of the facts or questions then before the court. P. 626.
  4. Where a question has been adjudged as between a taxpayer and the Government or its official agent, the Commissioner of Internal Revenue, the Collector, being an official inferior in authority, and acting under them, is in such privity with them that he is estopped by the judgment. P. 627.
- 62 F. (2d) 933, affirmed.

CERTIORARI\* to review the affirmance of a judgment for the plaintiff—the respondent here—in a consolidation of actions for the recovery of excess tax payments. See also 53 F. (2d) 211 (District Court in this case), and 33 F. (2d) 695 (Circuit Court of Appeals in an earlier case).

*Mr. Whitney North Seymour*, with whom *Solicitor General Biggs* and *Messrs. Sewall Key* and *J. Louis Monarch* were on the brief, for petitioner.

*Messrs. Eugene S. Williams* and *Wm. C. Purnell* for respondent.

By leave of Court, *Mr. John J. Finnorn* filed a brief as *amicus curiæ*.

MR. JUSTICE ROBERTS delivered the opinion of the Court.

Between the years 1902 and 1908 The Western Maryland Rail Road Company, a Maryland corporation, sold and issued at a discount, large amounts of its first mortgage bonds. In foreclosure proceedings under a second mortgage its entire property was sold to a reorganization committee representing second mortgage bondholders, and a new company formed under the name The Western

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\* See Table of Cases Reported in this volume.

Maryland Railway Company took title to all the assets and operated the railroad. In 1911 the latter issued and sold at a discount additional bonds secured by the first mortgage of the original corporation.

In 1917 The Western Maryland Railway Company was consolidated, pursuant to Maryland statutes, with some seven subsidiaries. The new corporation so formed, named Western Maryland Railway Company, recognized as its own obligations the outstanding first mortgage bonds issued by its two predecessors. In computing this company's income tax for the years 1918 and 1919 the Commissioner of Internal Revenue refused to allow as a deduction from gross income an amortized proportion of the discount on the sales of bonds by the first and second companies. The Board of Tax Appeals sustained the ruling.<sup>1</sup> The Circuit Court of Appeals for the Fourth Circuit reversed the decision of the Board.<sup>2</sup>

In returns for 1920, 1921 and 1922 the company neglected to take any deduction for amortization of the bond discount in question. It made timely claim for refund for all three years, and, upon denial, brought a suit for the amount claimed against the petitioner, as collector; and also sued the United States for refund of the alleged overpayment for 1920. Deductions taken on the same ground for 1923, 1924 and 1925 were disallowed by the Commissioner, the resulting deficiencies in tax were paid under protest, claims for refund filed and disallowed, and suit brought against the petitioner as collector. The District Court consolidated the cases and tried them without a jury on an agreed stipulation. That court found that no facts were presented which had not been before the Board of Tax Appeals in the litigation over the 1918 and 1919 taxes, that the parties were concluded by the

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<sup>1</sup> 12 B.T.A. 889.

<sup>2</sup> 33 F. (2d) 695.

former decision, and rendered judgment for the respondent,<sup>3</sup> which the Circuit Court of Appeals affirmed.<sup>4</sup>

The petitioner seeks a reversal on the merits, asserting that a judgment in a suit concerning income tax for a given year cannot estop either of the parties in a later action touching liability for taxes of another year. He urges further, that, if this position is not well taken, he is not concluded by the former judgment because neither the proofs nor the parties are the same as in the prior proceeding.

1. The scope of the estoppel of a judgment depends upon whether the question arises in a subsequent action between the same parties upon the same claim or demand or upon a different claim or demand. In the former case a judgment upon the merits is an absolute bar to the subsequent action. In the latter the inquiry is whether the point or question to be determined in the later action is the same as that litigated and determined in the original action. *Cromwell v. County of Sac*, 94 U.S. 351, 352-353; *Southern Pacific R. Co. v. United States*, 168 U.S. 1, 48; *United States v. Moser*, 266 U.S. 236, 241. Since the claim in the first suit concerned taxes for 1918 and 1919 and the demands in the present actions embraced taxes for 1920-1925, the case at bar falls within the second class. The courts below held the lawfulness of the respondent's deduction of amortized discount on the bonds of the predecessor companies was adjudicated in the earlier suit. The petitioner, admitting the question was in issue and decided in respect of the bonds issued by the second company, and denying, for reasons presently to be stated, that this is true as to the bonds of the first company, contends that as to both the decision of the Court of Appeals is erroneous, for the reason that the thing adjudged in a

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<sup>3</sup> 53 F. (2d) 211.

<sup>4</sup> 62 F. (2d) 933.

suit for one year's tax cannot affect the rights of the parties in an action for taxes of another year.

As petitioner says, the scheme of the Revenue Acts is an imposition of tax for annual periods, and the exaction for one year is distinct from that for any other. But it does not follow that Congress in adopting this system meant to deprive the government and the taxpayer of relief from redundant litigation of the identical question of the statute's application to the taxpayer's status.

This court has repeatedly applied the doctrine of *res judicata* in actions concerning state taxes, holding the parties concluded in a suit for one year's tax as to the right or question adjudicated by a former judgment respecting the tax of an earlier year. *New Orleans v. Citizens' Bank*, 167 U.S. 371; *Third National Bank v. Stone*, 174 U.S. 432; *Baldwin v. Maryland*, 179 U.S. 220; *Deposit Bank v. Frankfort*, 191 U.S. 499. Compare *United States v. Stone & Downer Co.*, 274 U.S. 225, 230-231. The public policy upon which the rule is founded has been said to apply with equal force to the sovereign's demand and the claims of private citizens. Alteration of the law in this respect is a matter for the law-making body rather than the courts. *New Orleans v. Citizens' Bank*, 398-9. It cannot be supposed that Congress was oblivious of the scope of the doctrine, and in the absence of a clear declaration of such purpose, we will not infer from the annual nature of the exaction an intent to abolish the rule in this class of cases.

We are not persuaded that the operation of the principle of the thing adjudged in tax cases will, as petitioner insists, produce serious inequalities, or result in great confusion; but any adverse consequence in the administration of the law furnishes no sufficient reason for the abandonment of a rule founded in sound policy, to the enforcement of which suitors are in justice entitled.

We cannot agree that the decision in *United States v. Stone & Downer* requires a reversal of the judgment. The Court of Customs Appeals had from its organization consistently held the rule of *res judicata* inapplicable to its decisions as to the classification of imported commodities for the imposition of tariff duties. For some years that court's jurisdiction of customs cases was exclusive and final, and its practice, in this respect, had come to be settled. After Congress granted a right of review we were urged to overturn the practice and to apply the doctrine of estoppel by judgment in this class of litigation. The court refused to do so, not only because of the settled practice, but also on account of the unique character of the questions presented under the tariff acts. The ruling was justified by considerations which are absent in tax litigation; and the court mentioned and recognized the authority of the precedents for estoppel by judgment in the latter.

2. Is the question or right here in issue the same as that adjudicated in the former action? The pertinent language of the Revenue Acts is identical;<sup>5</sup> the regulations issued by the Treasury remained unchanged,<sup>6</sup> and of course the facts with respect to the sale of the bonds and the successive ownership of the railroad property were the same at the time of both trials. The petitioner suggests, however, that significant facts were stipulated in the present case which were not made to appear in the former proceeding. He shows that in the earlier case the Commissioner inadvertently stipulated that the first company "may be taken as identical" with the second,

<sup>5</sup> Revenue Act of 1918, § 234 (a) (2), 40 Stat. 1057, 1077; Revenue Act of 1921, § 234 (a) (2), 42 Stat. 227, 254; Revenue Act of 1924, § 234 (a) (2), 43 Stat. 253, 283; U.S.C., Tit. 26, § 986.

<sup>6</sup> Regulations 45 (1920 ed.), Art. 544 (a) (3); Art. 563. Regulations 62 and 65, Art. 545 (a) (3); Art. 563.

whereas in the present suit the exact devolution of title from the first to the second through the foreclosure and reorganization is definitely exhibited by the stipulation of the parties. From this he concludes that the Circuit Court of Appeals might well have reached a different result on the merits, if the former case had been more fully and accurately presented. But the Circuit Court of Appeals has found that all the facts stipulated in the present cause were before it in the former one, and we accept this finding. It holds also that the former decision was based on a view of the law quite as pertinent to the bonds sold by the first company as to those marketed by the second. The petitioner may not escape the effect of the earlier judgment as an estoppel by showing an inadvertent or erroneous concession as to the materiality, bearing or significance of the facts, provided, as is the case here, the facts and the questions presented on those facts were before the court when it rendered its judgment. Compare *Deposit Bank v. Frankfort*, 191 U.S. 499, 510-511. The very right now contested arising out of the same facts appearing in this record, was adjudged in the prior proceeding.

3. As we have seen, the demand for refund of 1918-1919 taxes was against the Commissioner of Internal Revenue. The present suits are against the United States and the Collector. Are the parties the same or in such privity that the claimed estoppel binds them? The petitioner concedes that the former judgment is, so far as identity of parties is concerned, conclusive in the suits in which the United States is now the defendant, since the Commissioner acted in the earlier suit in his official capacity and as representative of the Government. This leaves for consideration the question whether the Commissioner and the Collector are for purposes of application of the rule of estoppel, to be regarded as different parties.

In a suit for unlawful exaction the liability of a collector is not official but personal. *Sage v. United States*, 250 U.S. 33; *Smietanka v. Indiana Steel Co.*, 257 U.S. 1; *Graham & Foster v. Goodcell*, 282 U.S. 409, 430. And for this reason a judgment in a suit to which he was a party does not conclude the Commissioner or the United States. *Bankers Pocahontas Coal Co. v. Burnet*, 287 U.S. 308, 311. We think, however, that where a question has been adjudged as between a taxpayer and the Government or its official agent, the Commissioner, the Collector, being an official inferior in authority, and acting under them, is in such privity with them that he is estopped by the judgment. See *Second National Bank of Saginaw v. Woodworth*, 54 F. (2d) 672; *Bertelsen v. White*, 58 F. (2d) 792.

4. These views render unnecessary any consideration of the merits of the controversy.

*Judgment affirmed.*

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TEXAS & PACIFIC RAILWAY CO. ET AL. v. UNITED STATES ET AL.

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF TEXAS.

No. 1. Argued October 12, 13, 1931.—Reargued October 11, 12, 1932.—Decided May 29, 1933.

1. Carriers reaching the port of New Orleans with their own rails and reaching Texas ports through connections with which they maintained through routes and joint rates, made the same, or substantially the same, rates on export, import and coastwise traffic between New Orleans and inland points as were charged between those points and the Texas ports, although the rail haul to and from New Orleans was longer. Ocean freights were the same for all of these ports; and the object of the rail carriers in equalizing their rates was to protect their business, of the classes named, from the competition of other railroads whose lines tapped the Texas ports. The charges were neither unreasonably high nor so