1 T.C. 1166 (1943)

A foreign insurance company can only deduct expenses, interest, and foreign taxes connected with income from sources within the United States, and deductions cannot be taken for items already benefiting from tax credits or exemptions.

Summary

Commercial Union Assurance Co., a British insurance firm, contested the Commissioner's calculations regarding deductions for business expenses, interest, and British income taxes. The dispute centered on the proper ratio for allocating these deductions to U.S.-sourced income. The Tax Court upheld the Commissioner's method of excluding nontaxable interest and 85% of dividends from domestic corporations when calculating the ratio. The court disallowed deductions for interest paid on debt used to acquire stock in foreign companies with no U.S. income. The court also denied deductions for British taxes on income from U.S. subsidiaries, finding they were not based on dividends received by the petitioner.

Facts

Commercial Union Assurance Co., a British corporation, conducted fire and marine insurance business in the U.S. It incurred expenses at its London home office linked to U.S. income, but these were not directly allocable. The company received income from U.S. Treasury bonds, notes, and dividends from domestic corporations. The company also had outstanding debenture stock used to acquire stock in other British insurance companies. British law subjected the company to income tax on the net income and profits of its U.S. subsidiaries, regardless of dividends received.

Procedural History

Commercial Union Assurance Co. filed U.S. income tax returns for 1938 and 1939. The Commissioner of Internal Revenue determined deficiencies in income tax. The company petitioned the Tax Court for a redetermination, arguing for larger deductions. The cases were consolidated.

Issue(s)

1. Whether the Commissioner erred in excluding nontaxable interest and 85% of dividends from domestic corporations when determining the ratio of U.S.-sourced income to total income for calculating deductible business expenses and British income taxes.
2. Whether interest paid on debenture stock, used to acquire stock in foreign companies with no U.S. income, is deductible as connected with income from sources within the United States.
3. Whether the company can deduct British income taxes paid on the income and profits of its U.S. subsidiaries when these taxes are not based on dividends received by the petitioner.

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Holding

1. No, because excluding these items prevents a double deduction, as the company already benefited from their nontaxable status when calculating its

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