2 T.C. 445 (1943)

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Life insurance proceeds received by a corporation upon the death of its principal stockholder can constitute “abnormal income” under Section 721 of the Internal Revenue Code for excess profits tax purposes, but attributing such income to prior tax years based solely on the investment in the policy is not permissible.

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Summary

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Premier Products Co. sought to reduce its excess profits tax for 1940 by excluding life insurance proceeds received upon the death of its principal stockholder, William McCullough, arguing that these proceeds constituted “abnormal income” attributable to prior years. The Tax Court determined that the life insurance proceeds did constitute abnormal income. However, the court held that no portion of the abnormal income could be attributed to prior years based solely on the company’s investment in the insurance policies through premium payments. Therefore, the full amount of the abnormal income was taxable in 1940.

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Facts

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Premier Products Co. (Products Co.) manufactured and sold cotton padding. William McCullough, an officer and principal stockholder, died in May 1940. The Products Co. held two life insurance policies on McCullough’s life, acquired in 1929 for $8,400. The Products Co. paid total premiums of $20,898.50 on these policies. Upon McCullough’s death, the Products Co. received $100,376.23 in life insurance proceeds. The Products Co. had never before received life insurance proceeds.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Premier Products Co.’s excess profits tax for 1940, disallowing the company’s claim that the life insurance proceeds were abnormal income attributable to prior years. Premier Products Co. petitioned the Tax Court for a redetermination of the deficiency. The estate of William D. McCullough was also a petitioner due to its status as the transferee of Premier Products Co.’s assets.

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Issue(s)

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1. Whether the life insurance proceeds received by Premier Products Co. constituted “abnormal income” under Section 721(a)(1) of the Internal Revenue Code.

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2. Whether any portion of the

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