Conestoga Transportation Company, 17 T.C. 506 (1951)

To exclude income from debt discharge based on being in an "unsound financial condition" under Section 215 of the Revenue Act of 1939, a corporation must present sufficient evidence demonstrating a precarious financial state beyond merely showing its bonds selling below issue price.

Summary

Conestoga Transportation Company sought to exclude income resulting from the discharge of indebtedness, arguing it was in an "unsound financial condition" as defined by Section 215 of the Revenue Act of 1939. The Tax Court ruled against Conestoga, finding that while the company demonstrated its bonds were selling below their issue price, it failed to provide sufficient evidence of its overall financial instability. Specifically, the court noted the lack of comparative data regarding similar businesses and the company's positive financial indicators, like a substantial surplus and consistent equipment purchases from current earnings. The case highlights the burden of proof on the taxpayer to demonstrate financial instability for the debt discharge exclusion.

Facts

Conestoga Transportation Company discharged an indebtedness evidenced by a security and filed the required consent to regulations under Section 215 of the Revenue Act of 1939. The company attempted to prove it was in an unsound financial condition during the relevant tax year to exclude the income from the debt discharge. While its bonds were selling below their issue price, Conestoga otherwise showed a surplus and had been purchasing its own bonds and new equipment using current earnings.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Conestoga Transportation Company's taxes. Conestoga petitioned the Tax Court to contest the deficiency, arguing it qualified for the debt discharge exclusion under Section 215 of the Revenue Act of 1939. The Tax Court reviewed the case.

Issue(s)

Whether Conestoga Transportation Company presented sufficient evidence to prove it was in an "unsound financial condition" during the taxable year, thus qualifying for the exclusion of income attributable to the discharge of indebtedness under Section 215 of the Revenue Act of 1939.

Holding

No, because Conestoga Transportation Company failed to provide sufficient

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evidence to demonstrate its overall financial instability beyond the fact that its bonds were selling below their issue price. Evidence of a surplus and purchase of assets undermined the claim of

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