3 T.C. 1233 (1944)

r
r

Advances made by a parent corporation to its wholly-owned subsidiary, already insolvent with no reasonable expectation of repayment, are considered contributions to capital rather than deductible bad debts.

r
r

Summary

r

Houston Chronicle Publishing Co. sought to deduct refunds of workmen's compensation insurance premiums as dividends and to deduct advances made to its insolvent subsidiary, Houston Chronicle Building Co., as bad debts. The Tax Court held that the insurance refunds were ordinary income, not dividends, and thus did not qualify for the dividends received credit. Further, the court determined that the advances to the insolvent subsidiary were contributions to capital, not bona fide debts, and thus were not deductible as bad debts. The court emphasized the lack of a reasonable expectation of repayment at the time the advances were made, given the subsidiary's existing insolvency and substantial debt to the parent.

r
r

Facts

r

Houston Chronicle Publishing Co. (petitioner) was the parent company of Houston Chronicle Building Co. (building company), a wholly-owned subsidiary incorporated in 1926. By 1933, the building company was insolvent and owed the petitioner a significant amount of money, which had been previously written off as bad debt. During 1938, the petitioner advanced additional funds to the building company. In 1939, part of the 1938 advances were repaid, and the petitioner forgave a substantial portion of the building company's debt, including the outstanding balance from the 1938 advances. The petitioner used the reserve method for bad debts but specifically deducted the forgiven amount as a bad debt on its 1939 return. The petitioner also received refunds on worker's compensation insurance policies.

r
r

© 2025 SCOTUSreports.com. All rights reserved.

Procedural History

r

The Commissioner of Internal Revenue determined deficiencies in the petitioner's income tax for 1938 and 1939, reclassifying the insurance refunds and disallowing the bad debt deduction. The Houston Chronicle Publishing Co. petitioned the Tax Court for review of the Commissioner's determination.

r
r

Issue(s)

r

1. Whether refunds of premiums on policies of workmen's compensation insurance are "dividends" for the purpose of the dividends received credit under Section 26(b) of the Revenue Act of 1938 and the Internal Revenue Code.

r

2. Whether the petitioner was entitled to a bad debt deduction in either 1938 or 1939 for advances made to its wholly-owned, insolvent subsidiary.

r
r

Holding

r

1. No, because the refunds of premiums do not meet the definition of

© 2025 SCOTUSreports.com. All rights reserved.