4 T.C. 294 (1944)

Treasury Decision 4603 allows taxpayers to elect to amortize bond discounts on a per-issue basis when old bonds are retired with proceeds from new bonds prior to November 9, 1935, and requires deduction of unamortized amounts in the year of retirement if the new bonds are retired after that date.

Summary

Southern California Edison (SCE) retired several bond issues in 1935 using proceeds from new bond sales. SCE elected to amortize the discount and expenses from one issue over the life of the new bonds, but deducted the full amount for other issues. The IRS argued that the election had to apply to all issues or none. The Tax Court held that the election was available on a per-issue basis. Further, when the new bonds were later retired, the court held that the remaining unamortized discount must be deducted in that year, rather than amortized over the life of a subsequent bond issue.

Facts

SCE retired four bond issues in 1935, funding these retirements with proceeds from new bond issuances. SCE sold new bonds on May 1, 1935, to retire two old bond issues on July 1, 1935. Another new bond issuance occurred on July 2, 1935, to retire a third old bond issue on September 1, 1935. A final new issuance occurred on September 26, 1935, to retire the last old issue on December 1, 1935. SCE sent a letter to the Commissioner of Internal Revenue on December 23, 1935, indicating its election to amortize the discount and expenses of only the third bond issue over the life of the corresponding new bonds.

Procedural History

The Commissioner disallowed the amortization deductions claimed by SCE for the years 1936-1939 and the deduction claimed in 1940 relating to the unamortized balance when the new bonds were retired. SCE petitioned the Tax Court, challenging the Commissioner’s determinations.

Issue(s)

1. Whether Treasury Decision 4603 permits a taxpayer to elect to amortize unamortized discount, premium, and expenses over the life of new bonds on a per-issue basis when multiple bond issues are retired with proceeds from new bonds prior to November 9, 1935.
2. Whether, when new bonds (over the life of which unamortized discount and expenses were being amortized) are themselves retired after November 9, 1935, with the proceeds of another new bond issue, the remaining unamortized discount and expenses can be further amortized over the life of the second new bond issue.

© 2025 SCOTUSreports.com. All rights reserved.

Holding

1. Yes, because the plain language of Treasury Decision 4603 allows an election for each issue of bonds retired prior to November 9, 1935.
2. No, because Treasury Decision 4603 requires the deduction of all unamortized discount and premiums in the year the new bonds are retired, rather than amortization over a subsequent bond issue.

Court’s Reasoning

Regarding the first issue, the court emphasized the language of Treasury Decision 4603, which refers to

© 2025 SCOTUSreports.com. All rights reserved.