Esther M. Gerry, 6 T.C. 970 (1946)

Interest paid by a transferee of corporate assets on a subsequently assessed corporate tax deficiency is deductible, and payments received upon the partial retirement of registered notes are considered amounts received in exchange therefor, qualifying for capital gains treatment.

Summary

Esther Gerry, as the transferee of corporate assets in liquidation, agreed to pay the corporation's debts. After the transfer, a tax deficiency was assessed against the corporation, and Gerry paid the interest accrued after the liquidation. She deducted this interest, which the Commissioner disallowed. Gerry also received payments on notes issued during a bank reorganization. The Tax Court addressed whether the interest payment was deductible and whether the note payments qualified as capital gains from the retirement of debt. The court held that the interest was deductible and that the note payments were capital gains because the notes were in registered form and the payments constituted a partial retirement of the debt.

Facts

Esther Gerry and her husband liquidated their corporation, receiving its assets in proportion to their stock holdings. They agreed to pay all corporate debts. After the asset transfer, the IRS assessed a tax deficiency against the corporation. Gerry paid the portion of the interest on this deficiency that accrued after the liquidation.

Gerry had a deposit in Union Trust Co. When the bank was taken over for liquidation, she received a certificate of claim. After partial liquidating dividends, the bank reorganized. Gerry exchanged her claim for a cash payment and a

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