10 T.C. 948 (1948)

Shares of stock in a subsidiary corporation, even if acquired to increase wartime production, do not qualify as “emergency facilities” eligible for amortization deductions under Section 124 of the Internal Revenue Code.

Summary

The Foote-Burt Company sought to deduct the cost of stock in a subsidiary, Hammond Manufacturing Co., as an amortization expense under Section 124 of the Internal Revenue Code, arguing it was an “emergency facility” acquired to boost wartime production. The Tax Court denied the deduction, holding that corporate stock does not constitute a qualifying “emergency facility” as Congress intended the term. The court emphasized that the stock merely represented ownership of physical facilities, and allowing the deduction would result in an impermissible double deduction since the subsidiary’s assets were already subject to depreciation.

Facts

Foote-Burt Co., a machine tool manufacturer, purchased all outstanding stock of Hammond Manufacturing Co. in November 1940 for $67,500. Foote-Burt acquired Hammond to increase its production capacity to meet wartime demands. Hammond continued to operate as a separate unit, producing precision surface grinders and sensitive radial drills. Foote-Burt applied for and received a necessity certificate from the Secretary of War for the facilities of Hammond. In 1943, Hammond was liquidated, and its assets were sold for cash distributed to Foote-Burt, resulting in a capital gain for Foote-Burt.

Procedural History

Foote-Burt deducted $13,500 as amortization of the Hammond stock on its 1941 income and excess profits tax return. The Commissioner of Internal Revenue disallowed the deduction, leading to deficiencies in Foote-Burt’s taxes. Foote-Burt then petitioned the Tax Court for review of the Commissioner’s determination.

Issue(s)

Whether the capital stock of a wholly-owned subsidiary corporation, purchased to increase wartime production capacity, constitutes an “emergency facility” eligible for amortization deductions under Section 124 of the Internal Revenue Code.

Holding

No, because the term “emergency facility” as defined in Section 124 and interpreted through its legislative history, does not encompass shares of corporate stock, but rather refers to tangible assets like land, buildings, machinery, or equipment.

Court's Reasoning

The court reasoned that while the term "facility" could be broadly construed, the legislative history of Section 124 indicated that Congress intended it to apply to tangible assets used directly in production. The court emphasized that a share of stock represents ownership, not a physical asset that can be used for production or is subject to wear and tear. The court also noted that allowing amortization deductions for the stock would result in a double deduction since the subsidiary's physical assets were already subject to depreciation. The court cited the report of the Committee on Ways and Means, which specified that emergency facilities are "land, buildings, machinery and equipment or parts thereof." The court referenced Senator Harrison's clarification that the word "facility" was inserted to ensure the inclusion of dry docks, channels, and airports, reinforcing the intent to cover tangible assets. The court stated, "A share of stock in a corporation is not in itself a thing, or a 'facility,' which can be used for producing anything. It merely symbolizes ownership of such facilities."

Practical Implications

This case clarifies that the amortization deduction for emergency facilities under Section 124 is limited to tangible assets directly involved in production for national defense purposes. It prevents taxpayers from claiming amortization deductions on investments like stock, even if those investments are intended to increase wartime production capacity. The decision emphasizes the importance of examining the legislative intent behind tax provisions and avoiding interpretations that would lead to double deductions. Later cases applying Section 124 would need to distinguish between direct investments in qualifying assets versus indirect investments through the purchase of stock.