Ingle Coal Corporation v. Commissioner, 148 F.2d 564 (7th Cir. 1945)

Payments designated as royalties are not deductible if they are part of a series of transactions lacking economic substance and designed primarily to distribute corporate profits to shareholders.

Summary

Ingle Coal Corporation sought to deduct payments to its stockholders as royalties, arguing they were either royalties or ordinary and necessary business expenses. The IRS disallowed the deduction, contending the payments were a distribution of profits. The Seventh Circuit affirmed the Tax Court's decision, holding that the payments lacked economic substance and were merely a means to distribute profits to shareholders, thus not deductible as royalties or ordinary business expenses. The court emphasized the series of transactions were not at arm's length and were designed to create an artificial "obligation."

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