11 T.C. 25 (1948)

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Payments made under a lease agreement are not deductible as rental expenses if the taxpayer is acquiring an equity interest in the property; however, the portion of such payments representing interest may be deductible.

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Summary

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Judson Mills, a textile producer, sought to deduct payments made under machinery lease agreements as rental expenses. The agreements allowed Judson Mills to acquire the machinery at the end of the lease term for a relatively small additional payment. The Tax Court disallowed the rental expense deduction, finding that the payments gave Judson Mills an equity interest in the machinery. However, the court allowed a deduction for the portion of the payments that represented interest, as detailed in correspondence between Judson Mills and the machinery manufacturers. This case distinguishes between deductible rental expenses and non-deductible capital expenditures.

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Facts

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Judson Mills modernized its machinery by entering into agreements with three manufacturers: Atwood Machine Co., Crompton & Knowles Loom Works, and the Draper Corporation. These agreements were structured as leases, with stipulated monthly payments termed

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