12 T.C. 249 (1949)

A corporation’s income is taxable even if contractually obligated to apply the income to reduce its debt, unless specifically exempted by statute.

Summary

Keokuk and Hamilton Bridge, Inc. argued that income from its toll bridge, used to pay off debt under a gift proposal to the city of Keokuk, should be tax-exempt. The Tax Court ruled against the corporation, holding that the income was taxable because the corporation, as a separate entity, benefited from the debt reduction. The court rejected the argument that the corporation was merely an instrumentality of the city and found no statutory basis for exemption. The income was not considered a reimbursement for capital expenditures but rather payment for the use of the bridge. The court also denied amortization deductions for the bridge’s cost.

Facts

Keokuk and Hamilton Bridge Co. constructed a toll bridge connecting Keokuk, Iowa, and Hamilton, Illinois, around 1870. In 1941, Keokuk and Hamilton Bridge, Inc. was formed and acquired the bridge. The bridge company made a gift proposal to the city of Keokuk, offering to transfer the bridge to the city once existing bonds were paid off using bridge revenues. An escrow agreement was established, outlining the conditions for transferring the bridge to the city, including the retirement of the bonds. Until the debt was paid, the corporation retained control of the bridge operations. The agreement stipulated that if another bridge were built nearby, the gift would be voided, and the bridge would revert back to the corporation.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioner’s income and excess profits taxes. Keokuk and Hamilton Bridge, Inc. petitioned the Tax Court, contesting the tax assessment on the income generated from the bridge operations. The Tax Court ruled in favor of the Commissioner, upholding the tax deficiencies.

Issue(s)

Whether the net income derived by the corporation from operating the toll bridge and applied to paying interest and principal on bonds is

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