T.C. Memo. 1944-319

r
r

Gains derived by a debtor from purchasing its own obligations at a discount are generally taxable income unless the discount constitutes a gift.

r
r

Summary

r

Briarcliff Hotel Co. purchased its own bonds at a discount and reported the gain as income. The IRS assessed a deficiency, arguing the discount was taxable income. Briarcliff argued the discount was a gift and thus exempt from taxation. The Tax Court upheld the IRS's determination, finding that the transactions were transfers for the best available price and not intended as gifts. This decision aligns with the Supreme Court's ruling in *Commissioner v. Jacobson*, emphasizing that the nature of the gain from discounted debt repurchase is taxable income unless proven to be a gift.

r
r

Facts

r

r
Briarcliff Hotel Co. and its trustee purchased several of its outstanding bonds at a discount during 1940. Specifically, these transactions included:r

r

r

- $1,600 face value bonds purchased by the trustee from Cleveland Trust Co. for $1,088.

r

- $13,500 face value bonds purchased by the trustee from F.L. Miller at an undisclosed price.

r

© 2025 SCOTUSreports.com. All rights reserved.

- $2,500 face value bonds purchased by Briarcliff from L.J. Schultz & Co. for $1,975 plus accrued interest of $9.44.

  r

- $6,800 face value bonds purchased by Briarcliff from F.L. Miller for $5,372 plus accrued interest (amount not disclosed).

  r

r

The company reported a gain of $5,416.67 from these discounted bond purchases on its 1940 income tax return. The IRS determined this amount was taxable income.

r
r

Procedural History

r

r
The Commissioner assessed a deficiency against Briarcliff Hotel Co. The company appealed the assessment to the Tax Court. Briarcliff relied on a Seventh Circuit decision (*Jacobson v. Commissioner*) that had partially favored the taxpayer in a similar case. However, the Supreme Court subsequently reversed the Seventh Circuit's decision in *Commissioner v. Jacobson*.r

r
r

Issue(s)

r

r
Whether the gain realized by Briarcliff Hotel Co. from purchasing its own bonds at a discount constitutes taxable income, or whether the discount constitutes a gift exempt from taxation under Section 22(b)(3) of the Internal Revenue Code.r

r
r

Holding

r

© 2025 SCOTUSreports.com. All rights reserved.

r
No, because the transactions were transfers for the best available price, not transfers intending a gift. The court found that the bondholders intended to receive the best possible price for their bonds, not to make a gift to the company.r

r
r

Court’s Reasoning

r

r
The Tax Court relied heavily on the Supreme Court’s decision in *Commissioner v. Jacobson*, which held that the nature of the gain derived by a debtor from purchasing its own obligations at a discount is taxable income unless it constitutes a gift. The court emphasized that each transaction must be examined to determine whether it was a transfer for the best price available or a transfer

© 2025 SCOTUSreports.com. All rights reserved.