14 T.C. 681 (1950)

r
r

A taxpayer cannot deduct interest payments on an alleged debt to family members if the underlying transfer of assets purportedly creating the debt does not constitute a valid gift under applicable state law.

r
r

Summary

r

Ludwig Bendix, a securities dealer, claimed an interest expense deduction for payments made to his children in 1943, arguing these payments were interest on a debt created by gifts of securities to them in 1935 and 1936. The Tax Court disallowed the deduction, holding that Bendix failed to prove he made valid gifts of the securities to his children under New York law. Without a valid gift establishing the principal, no true debtor-creditor relationship existed, and the payments could not be considered deductible interest expenses. The court emphasized that mere book entries and a lack of actual transfer or control by the children undermined the claim of a completed gift.

r
r

Facts

r

Bendix, a securities dealer, made book entries in 1935 and 1936 purporting to transfer securities to his two minor children. He informed his children of these intended gifts. The securities remained in street names at Carl M. Loeb & Co., Bendix's firm. Dividends were credited to the children's accounts. Bendix sold some of the securities for the children's accounts. No powers of attorney were executed by the children. No gift tax returns were filed. In 1937, the dividend income from these securities was reported on Bendix's own tax return. In 1943, Bendix paid his wife, as trustee for the children, amounts he calculated as interest accrued on the purported gifts.

r
r

Procedural History

© 2025 SCOTUSreports.com. All rights reserved.

r

The Commissioner of Internal Revenue determined a deficiency in Bendix's 1943 income tax. Bendix petitioned the Tax Court for a redetermination, contesting the disallowance of the interest expense deduction. The Tax Court ruled in favor of the Commissioner, upholding the deficiency.

r
r

Issue(s)

r

Whether the payments made by Bendix to his children in 1943 constituted deductible interest expenses under Section 23(b) of the Internal Revenue Code.

r
r

Holding

r

No, because Bendix failed to prove that he made valid gifts of securities to his children in 1935 and 1936, which was a prerequisite to establishing a genuine debtor-creditor relationship upon which deductible interest could be paid.

r
r

Court's Reasoning

r

The court applied the established requirements for a valid gift, citing *Adolph Weil, 31 B.T.A. 899*, affd., 82 F.2d 561:

© 2025 SCOTUSreports.com. All rights reserved.