14 T.C. 744 (1950)

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Payments made as compensation for the deferment of a principal amount due are considered interest and are deductible under Section 23(b) of the Internal Revenue Code, even if the technical legal obligation to pay the principal rests elsewhere.

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Summary

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Howard Gould sought to deduct $30,000 as interest paid on indebtedness. The payments arose from a settlement agreement resolving a breach of fiduciary duty claim against Gould and others related to his father's estate. The settlement involved adding funds to trusts and making annual payments to compensate beneficiaries for delayed receipt of their share. The Tax Court held that these payments, although not technically interest on Gould's direct debt, were compensation for the forbearance of money and therefore deductible as interest under Section 23(b) of the Internal Revenue Code. The court emphasized that Gould benefited from the delayed payment, justifying the deduction.

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Facts

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Jay Gould's will created trusts for his six children, with the four eldest (including Howard) as trustees. A lawsuit was filed alleging the trustees mismanaged the estate. A settlement was reached where the trustees would add $2,000,000 to each trust. To compensate Anna and Frank Gould (two of Jay Gould's children) and the children of George Gould (another child) for the delayed receipt of their inheritance, Howard Gould agreed to pay them annual amounts. Specifically, the agreement stipulated that Howard would pay $18,000 annually to each of the three groups until the death of either Helen Gould Shepard or himself, and then $10,000 annually to each group until the death of the survivor. The stated purpose was to compensate for "the loss of income resulting from the deferment of the vesting in possession of the aggregate $900,000 remainder interest

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