15 T.C. 86 (1950)

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Payments made to a deceased employee's widow may be deductible as ordinary and necessary business expenses for a limited period following the employee's death, in recognition of the services rendered by the employee.

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Summary

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I. Putnam, Inc. sought to deduct payments made to the widow of its former president, Israel Putnam, as ordinary and necessary business expenses. Putnam had received a salary and then a pension before his death, and the company continued payments to his widow afterward, based on board resolutions. The Commissioner allowed deductions for 18 months but disallowed them for subsequent years. The Tax Court held that the payments were deductible for a 24-month period after Putnam's death, aligning with the principle that such payments, when voluntary and for a limited time, are permissible deductions in recognition of the employee's past services.

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Facts

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Israel Putnam was a key figure in I. Putnam, Inc.'s success. He retired in 1940 due to failing health, but his salary continued at a reduced rate until his death in June 1942. Prior to Putnam's death, corporate resolutions authorized continued payments to his widow, Florence Putnam, after his death. The company paid Mrs. Putnam $6,500 per year until November 1945, totaling 40 1/2 months of payments after Israel Putnam's death. The company later rescinded the resolutions due to concerns about estate tax implications and advice from counsel.

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Procedural History

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I. Putnam, Inc. deducted the payments to Putnam's widow on its 1944 and 1945 tax returns. The Commissioner of Internal Revenue disallowed these deductions, leading to a deficiency assessment. The Tax Court was petitioned to determine whether these payments were properly deductible as ordinary and necessary business expenses.

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Issue(s)

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Whether the payments made by I. Putnam, Inc. to the widow of its deceased former president, Israel Putnam, are deductible as ordinary and necessary business expenses under Section 23(a) of the Internal Revenue Code and Section 29.23(a)-9 of Regulations 111?

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Holding

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Yes, in part. The payments are deductible for a limited period of 24 months after Israel Putnam's death because the payments were made in recognition of his past services and fall within the scope of permissible deductions as defined by Section 29.23(a)-9 of Regulations 111. The Commissioner's disallowance of deductions for the remaining period is sustained.

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Court's Reasoning

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The Tax Court differentiated the situation from cases involving contractual obligations to make payments, such as *Seavey & Flarsheim Brokerage Co.* The court determined that the payments to Mrs. Putnam were voluntary, rather than pursuant to a binding contract. Referencing *McLaughlin Gormley King Co.*, the court reiterated the principle that voluntary payments to a widow are deductible only for a limited period. The court emphasized that what constitutes a