Arlington Metal Industries, Inc. v. Commissioner, 22 T.C. 1250 (1954)

For tax purposes, a debenture is considered a genuine indebtedness if it represents an unconditional and legally enforceable obligation for the payment of money, supported by valid consideration.

Summary

Arlington Metal Industries sought to deduct interest payments on debentures and include these debentures as borrowed capital for excess profits tax calculations. The IRS argued the debentures weren't a true indebtedness because they were issued against an inflated valuation of goodwill. The Tax Court held that the debentures did represent a valid indebtedness because they were issued for value received and were unconditional obligations, allowing the interest deductions and inclusion as borrowed capital. Additionally, the court addressed whether a deferred excess profits tax constituted a deficiency, finding that upon rejection of a related claim, it did.

Facts

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