18 T.C. 479 (1952)

Advances made by shareholders to thinly capitalized corporations, without a fixed repayment schedule or interest, and in proportion to their shareholdings, are generally considered capital contributions rather than loans for tax deduction purposes.

Summary

Alfred Bachrach, a public accountant, sought to deduct losses from advances to a corporation (Est Realty) as business bad debts. The Tax Court disallowed the deduction, finding that the advances were capital contributions, not loans. Bachrach and his associates routinely formed thinly capitalized corporations to hold real estate, advancing funds as needed without formal loan agreements. The court also denied a deduction for Bachrach's guarantee of a corporate mortgage, as he made no actual payment in the tax year.

Facts

Bachrach and his associates organized numerous corporations since 1925 to hold title to real estate, often undercapitalizing them. They acquired properties with existing mortgages, seldom paying them off. Bachrach and his associates would advance funds to these corporations in proportion to their stock holdings. These advances were recorded as open accounts or

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