12 T.C. 1244 (1949)

A taxpayer cannot deduct unpaid expenses to a related party if the expenses are not paid within the taxable year or two and a half months after, the related party doesn't include the amount in their gross income for that year, and the relationship is one where losses would be disallowed.

Summary

The Tax Court addressed whether the petitioner, Samuel Weisberg, could deduct additional compensation payable to his sons as business expenses. The Commissioner disallowed the deductions under Section 24(c) of the Internal Revenue Code, arguing that the conditions for deductibility were not met because the salaries were not paid within the required timeframe and were not includible in the sons' gross income for the relevant tax year. The court upheld the Commissioner's decision, finding that all three conditions of Section 24(c) were satisfied, thus preventing the deductions.

Facts

Samuel Weisberg operated a business and employed his two sons. He agreed to pay them additional compensation based on a percentage of the annual profit, after accounting for Weisberg's own profit percentage and income tax. The exact amount of additional compensation was determined after the end of each calendar year, typically between January 15 and 20 of the following year. The additional salaries were not accrued on the petitioner's books during the taxable years in which he claimed deductions. While the sons had the ability to access the funds after the amounts were determined and recorded, no actual payment was made within the tax year or within two and a half months after the close of each tax year.

Procedural History

The Commissioner of Internal Revenue disallowed the deductions claimed by Samuel Weisberg for additional compensation paid to his sons. Weisberg petitioned the Tax Court for a review of the Commissioner's determination.

Issue(s)

1. Whether the additional compensation was constructively paid to the sons within two and a half months after the close of the taxable year, satisfying the requirements of Section 24(c)(1) of the Internal Revenue Code.
2. Whether the additional compensation was

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