20 T.C. 185 (1953)

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A trust is not considered an ‘individual’ under Section 24(b) of the Internal Revenue Code, and therefore, interest deductions accrued by a corporation on sums owed to a trust owning all its stock are not disallowed under Section 24(c).

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Summary

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Lexmont Corporation, an accrual basis taxpayer, sought to deduct accrued interest on promissory notes owed to a trust that owned all of its stock. The IRS disallowed the deduction, arguing it ran afoul of Section 24(c) of the Internal Revenue Code because the interest was unpaid, the trust used a cash method of accounting, and the trust was related to the corporation under Section 24(b). The Tax Court held that a trust is not an ‘individual’ under Section 24(b), allowing the interest deduction. The court also addressed the inclusion of real estate tax refunds in the corporation’s taxable income.

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Facts

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Lexmont Corporation was formed in 1933 and obtained loans from Jesse Isidor Straus, who also acquired all of Lexmont’s stock. Straus died in 1936, and his residuary estate, including the Lexmont stock and promissory notes, was placed in a trust with his widow as the income beneficiary. The trust used the cash method of accounting. Lexmont accrued interest on the notes each year but never paid it. The IRS challenged the deductibility of this accrued interest. In 1946, Lexmont received refunds of New York City real estate taxes paid in prior years.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in Lexmont's tax liability for the years 1944, 1945, and 1946. Lexmont petitioned the Tax Court, contesting the disallowance of interest deductions, net operating loss deductions, and the inclusion of real estate tax refunds in income. The Tax Court ruled in favor of Lexmont on the interest deduction issue but addressed the tax refund issue separately, requiring a Rule 50 computation to determine the taxable amount.

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Issue(s)

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1. Whether a trust is considered an "individual" within the meaning of Section 24(b)(1)(B) of the Internal Revenue Code.

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2. To what extent must Lexmont include in its 1946 taxable income a refund received for New York City real estate taxes paid in prior years.

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Holding

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1. No, because a trust is not an

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