Loughran v. Commissioner, 27 T.C. 799 (1957)

To qualify for the borrowed capital deduction under the Internal Revenue Code, indebtedness must be incurred in good faith and for legitimate business purposes, not merely to increase the tax credit.

Summary

In Loughran v. Commissioner, the Tax Court addressed whether a corporation's borrowing was in good faith for business purposes, as required to include it in the calculation of borrowed capital for excess profits tax deductions. The court found that a significant portion of the loan lacked a legitimate business purpose, focusing instead on the desire to inflate the company's tax credit. The decision underscores the importance of demonstrating a genuine business need for borrowing to qualify for certain tax benefits, and prevents the artificial inflation of tax deductions.

Facts

Loughran, a corporation, borrowed $900,000 from Metropolitan, which was used to invest in securities. Loughran claimed the loan as borrowed capital to calculate an excess profits tax credit under the Internal Revenue Code of 1939. The Commissioner determined that $600,000 of the loan was not made in good faith for business purposes. Loughran argued the loan was for various business reasons, including potential repayment of debts, building repairs, and increasing the property's salability. The Commissioner of Internal Revenue determined that the borrowed funds did not represent an obligation

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