***29 T.C. 350 (1957)***

A taxpayer realizes taxable income from currency exchange fluctuations when it discharges a debt in a foreign currency after the currency has been devalued, resulting in a gain measured by the difference between the original debt in US dollars and the lower amount in US dollars needed to purchase the foreign currency at the devalued rate.

**Summary**

The U.S. Tax Court addressed two key issues: whether Bennett's Travel Bureau, Inc. (petitioner) realized ordinary income from the devaluation of the Norwegian krone and whether expenses paid to a non-employee manager of a related company were deductible as ordinary and necessary business expenses. The court held that the petitioner realized taxable income because of the currency exchange, treating the transaction as a separate investment. Furthermore, the court determined that the expenses for entertainment and services provided by the manager were deductible as ordinary and necessary business expenses. The court found that, despite the lack of a formal employment relationship, the expenses were incurred for legitimate business purposes.

**Facts**

Bennett's Travel Bureau, Inc., a Massachusetts corporation, arranged European travel for clients. It was primarily owned by Bennett's Reisebureau A/S, Oslo, Norway (Bennett's Oslo). Clients paid in advance, and the petitioner issued certificates honored by associates, including Bennett's Oslo, which billed the petitioner. Payments were typically made in Norwegian kroner. In 1949, the official exchange rate of the Norwegian krone changed from 4.97 to 7.15 per U.S. dollar. After the devaluation, petitioner purchased kroner to pay off its debt to Bennett's Oslo, resulting in a gain of $25,077.61. Additionally, Ivar Krogh, manager of Bennett's Oslo, provided entertainment and services to petitioner's clients, with expenses reimbursed and compensated by lump-sum payments from the petitioner.

**Procedural History**

The Commissioner of Internal Revenue determined a deficiency in income tax against Bennett's Travel Bureau, Inc. for the taxable year ended December 31, 1949. The U.S. Tax Court reviewed the Commissioner's determination regarding whether the petitioner realized ordinary income due to currency devaluation and whether certain payments to Krogh were deductible as ordinary and necessary business expenses. The Tax Court ruled in favor of the Commissioner on the first issue and in favor of the petitioner on the second issue.

**Issue(s)**

1. Whether the petitioner realized ordinary income in the amount of $25,077.61 in

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1949 upon discharging an indebtedness to Bennett's Oslo by paying in kroner after the krone's devaluation.

2. Whether amounts of $2,575.61 and $207.34, representing reimbursement of travel and entertainment expenses and compensation to Ivar Krogh, are deductible as ordinary and necessary business expenses under Section 23(a) of the 1939 I.R.C.

**Holding**

1. Yes, because the transaction was essentially an investment in foreign currency, and the gain from the exchange rate fluctuation was taxable as ordinary income.

2. Yes, because the expenses were ordinary and necessary business expenses, even though Krogh was not a formal employee.

**Court's Reasoning**

The court reasoned that the petitioner's payment of the debt in kroner after the devaluation constituted a separate investment in foreign exchange, resulting in taxable gain. The court cited precedent, including *Joyce-Koebel Co.* and *Church's English Shoes, Ltd.*, which established the principle that such transactions are treated as separate from the underlying purchase of goods or services. The court rejected the petitioner's argument that it had an obligation to pay in dollar value and that the gain belonged to the parent company. The court emphasized that it was the petitioner that engaged in the currency transaction.

Regarding the deductibility of the expenses, the court found the expenses to be

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