Moneygram Int’l, Inc. v. Comm’r, 144 T. C. 1 (2015)

In a landmark decision, the U. S. Tax Court ruled that MoneyGram International, a money services business, was not a ‘bank’ under I. R. C. section 581, and thus ineligible to claim ordinary loss deductions for worthless securities. The court emphasized the distinction between MoneyGram’s operations and traditional banking activities, rejecting its claims based on the statutory definition and common understanding of a ‘bank. ’ This ruling clarifies the scope of tax deductions available to non-bank financial institutions and underscores the importance of statutory interpretation in tax law.

Parties

MoneyGram International, Inc. and its subsidiaries, as Petitioner, versus Commissioner of Internal Revenue, as Respondent, at the U. S. Tax Court.

Facts

MoneyGram International, Inc. , a Delaware corporation headquartered in Texas, operates globally through its subsidiary, MoneyGram Payment Systems, Inc. Its business involves money transfers, money orders, and payment processing services. MoneyGram’s operations are conducted primarily through agents such as banks, supermarkets, and convenience stores. In 2007 and 2008, due to the global financial crisis, MoneyGram undertook a recapitalization, which included writing down or writing off a substantial volume of partially or wholly worthless asset-backed securities. MoneyGram claimed these losses as ordinary loss deductions under I. R. C. section 582, which is applicable to banks. The IRS disallowed these deductions, asserting that MoneyGram did not qualify as a ‘bank’ under I. R. C. section 581.

Procedural History

The IRS determined deficiencies in MoneyGram’s federal income tax for the years 2005-2007 and 2009, primarily due to the disallowance of bad debt deductions claimed by MoneyGram on its 2007 and 2008 tax returns. MoneyGram timely petitioned the U. S. Tax Court, and both parties filed cross-motions for partial summary judgment on the issue of whether MoneyGram qualified as a ‘bank’ under I. R. C. section 581, which would allow it to claim ordinary loss deductions under I. R. C. section 582.

Issue(s)

Whether MoneyGram International, Inc. qualified as a ‘bank’ within the meaning of I. R. C. section 581, thereby entitling it to claim ordinary loss deductions on account of the worthlessness of its non-REMIC asset-backed securities under I. R. C. section 582?

Rule(s) of Law

Under I. R. C. section 581, a 'bank' is defined as "a bank or trust company incorporated and doing business" under Federal or State law, where "a substantial part" of its business consists of "receiving deposits and making loans and discounts," and is "subject by law to supervision and examination" by Federal or State authorities having supervision over banking institutions. I. R. C. section 582 allows banks to claim ordinary loss deductions for debts evidenced by a security, which would otherwise be treated as capital losses under I. R. C. section 165(g).

Holding

The U. S. Tax Court held that MoneyGram International, Inc. did not qualify as a 'bank' under I. R. C. section 581 during 2007 and 2008 because it did not display the essential characteristics of a bank as commonly understood, nor did a substantial part of its business consist of receiving bank deposits or making bank loans. Consequently, MoneyGram was ineligible to claim ordinary loss deductions under I. R. C. section 582 for its non-REMIC asset-backed securities.

Reasoning

The court's reasoning was grounded in a detailed analysis of the statutory definition of a 'bank' under I. R. C. section 581 and relevant case law, particularly the landmark case of Staunton Indus. Loan Corp. v. Commissioner. The court applied a 'practical, commercial, functional approach' to determine that MoneyGram did not possess the essential characteristics of a bank. It emphasized that MoneyGram's operations, which involved the rapid movement of funds rather than the safekeeping of deposits, did not align with the statutory definition or common understanding of a bank's functions. The court also noted that MoneyGram's funds were not held as 'deposits' but as 'payment service obligations,' and its accounts receivable from agents were not 'loans' as traditionally understood in banking. Furthermore, MoneyGram was not regulated as a bank by Federal banking authorities but as a money services business (MSB). The court rejected MoneyGram's policy arguments, stating that the statute's language clearly limited the application of I. R. C. section 582 to entities that met the definition of a 'bank' under I. R. C. section 581.

Disposition

The court granted the Commissioner's motion for partial summary judgment and denied MoneyGram's motion, ruling that MoneyGram was not a 'bank' and thus ineligible for ordinary loss deductions under I. R. C. section 582.

Significance/Impact

This decision has significant implications for the tax treatment of non-bank financial institutions, particularly those engaged in money services. It clarifies that the statutory definition of a 'bank' under I. R. C. section 581 is strictly interpreted, and entities must meet all three criteria—incorporation and operation as a bank, substantial business in receiving deposits and making loans, and regulation as a bank—to qualify for special tax deductions under I. R. C. section 582. The ruling may influence future interpretations of what constitutes a ‘bank’ for tax purposes and affect the strategies of financial institutions seeking to claim similar deductions. Subsequent courts have cited this case in discussions regarding the classification of financial institutions and the application of tax statutes.

