Accounting papers

Tax Research Problem I: 6-65 Richard Penn is the president of an architectural firm. He lives in Harrisburg, Pennsylvania and has become known throughout to community for excellent work and honesty in his business dealings. Richard believes his reputation is a fundamental part of the success of the firm. Oil was found recently in the area around Harrisburg and some geologists believed the reserves were large. A few well-respected businesspeople organized Oil Company to develop a few wells.

Although some oil was being extracted, the oil corporation lacked capital to develop the oil fields to their expected potential. Richard read the geologists report and felt that it would be a good investment so he acquired 25% of the company. A short period afterwards, the price of the oil decreased sharply and the drop in foreign oil prices caused the Oil Company to be unprofitable due to its high production costs and eventually they filed bankruptcy.

Due to the bankruptcy, the architectural firm noticeably decreased, and Richard felt as if that was why. Richard convinced his partner to use the accumulated earnings of the firm to repay all the creditors of Oil Company. The question to be determined is whether payments by a taxpayers firm, are deductible from repaying Oil Company’s creditors. So in determining this issue I will be looking into Sec 162, the case of Thomas H. Welch v. Helvering and William A. Thompson.

The 162 section of the Internal Revenue Code, is part of the United States taxation law. It concerns deductions for business expenses. It is one of the most important provisions in the Code, because it is the most widely used authority for deductions. Under section 162, in order to claim a deduction the business has to meet six requirements. These requirements consist of the deduction being ordinary, necessary, an expense, that was paid or incurred during the taxable year, carrying on, and a trade or business activity.