

**Denman Vs. Slayton**

**Denman Vs. Slayton**

**SooperKanoon Citation :** [sooperkanoon.com/95460](http://sooperkanoon.com/95460)

**Court :** US Supreme Court

**Decided On :** Feb-24-1931

**Appeal No. :** 282 U.S. 514

**Appellant :** Denman

**Respondent :** Slayton

**Judgement :**

Denman v. Slayton - 282 U.S. 514 (1931)

U.S. Supreme Court Denman v. Slayton, 282 U.S. 514 (1931)

**Denman v. Slayton**

**No. 60**

**Argued January 20, 1931**

**Decided February 24, 1931**

**282 U.S. 514**

*CERTIORARI TO THE CIRCUIT COURT OF APPEALS*

*FOR THE SIXTH CIRCUIT*

## SYLLABUS

By Revenue Act of 1921, Title II, 213(b)(4), in computing gross income, interest on obligations of a state or any political subdivision thereof is excluded, and by 214(a)(2), all interest paid

Page 282 U. S. 515

or accrued on indebtedness owed by the taxpayer is deductible from gross income, except interest on indebtedness incurred or continued to purchase or carry obligations (other than certain specified obligations of the United States) the interest upon which is wholly exempt from taxation under the Title. *Held* that the purpose of the exception was to prevent the escape from taxation of income properly subject thereto by the purchase of exempt securities with borrowed money, and that it is not unconstitutional either (a) as discriminating against owners of nontaxable securities and nullifying their immunity from taxation, or (b) a discriminating against dealers in municipal bonds who, in the course of their business, pay interest on money borrowed to buy or carry such securities, but cannot deduct it in their tax returns, although those engaged in other kinds of business are allowed to deduct interest as an operating expense, or (c) as arbitrarily discriminating in favor of those who are able to purchase and carry securities without borrowing. *National Life Ins. Co. v. United States*, [277 U. S. 508](#) , distinguished. P. [282 U. S. 519](#) .

36 F.2d 145 reversed.

Certiorari, 281 U.S. 712, to review a judgment which affirmed a recovery from the Collector in a suit in the district court for money collected as an additional income tax.

Page 282 U. S. 517

MR. JUSTICE Mc REYNOLDS delivered the opinion of the Court.

During the year 1922, while respondent, Slayton, engaged in the business of buying, carrying, and selling tax exempt municipal bonds, he collected \$65,720.06, as interest on securities of that character which he owned. He paid out \$78,153.84 for interest on money borrowed by himself in due course for the purpose of purchasing and carrying exempt securities. In his return showing income received during that year, he excluded the interest so collected, and he claimed deduction for the interest paid out on the borrowed money. The Commissioner disallowed the deduction, and made a corresponding additional

Page 282 U. S. 518

assessment. Respondent paid the sum demanded thereunder, and, after proper preliminary action, sued to recover it.

Determination of the question involved must turn upon the validity, construction, and effect of 213 and 214, Revenue Act of 1921, 42 Stat. 227, 237, 238, 239. Their pertinent provisions follow.

"Sec. 213. That, for the purposes of this title . . . , the term 'gross income' --"

" \* \* \* \*"

"(b) Does not include the following items, which shall be exempt from taxation under this title:"

" \* \* \* \*"

"(4) Interest upon (a) the obligations of a state, Territory, or any political subdivision thereof, or the District of Columbia. . . ."

"Sec. 214 (a) That, in computing net income there shall be allowed as deductions:"

" \* \* \* \*"

"(2) All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917, and

originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this title. . . ."

By original petition in the District Court, Northern District of Ohio, Slayton asserted that the exception found in paragraph (2), 214(a), conflicts with the federal Constitution in that, by necessary operation, it causes discrimination against the owners of nontaxable securities and nullifies their immunity from taxation. Also, that the act is discriminatory and unconstitutional in that necessary expenses incident to all other kinds of business, including interest paid for purchasing and carrying merchandise and inventories, are allowed as part of the operating cost, whereas deduction of interest paid by plaintiff upon funds borrowed to carry nontaxable securities (an ordinary operating expense) is prohibited. Also

Page 282 U. S. 519

that the act is arbitrary and unconstitutional because it discriminates against plaintiff, whose resources do not permit him to purchase tax-free securities for cash, and in favor of those whose resources permit them to purchase and carry such securities without borrowing.

The collector unsuccessfully demurred to the petition upon the ground that it states no cause of action. Judgment went for the plaintiff, and was affirmed by the circuit court of appeals. Both courts were of opinion that, under the doctrine announced in *National Life Ins. Co. v. United States*, [277 U. S. 508](#) , enforcement of paragraph (2), 214(a), would deprive respondent of rights guaranteed by the federal Constitution.

The challenged judgment must be reversed. The case will be remanded to the district court with instructions to enter judgment for the collector.

The circumstances disclosed in *National Life Ins. Co. v. United States* were radically different from those now presented, and the doctrine upon which that case turned does not control the present one. The respondent here was not in effect required to pay more upon his taxable receipts than was demanded of others who enjoyed like incomes solely because he was the recipient of interest

from tax free securities -- a result which we found would have followed enforcement of the literal provisions of 245(a), Revenue Act 1921, 42 Stat. 227, 261. While guaranteed exemptions must be strictly observed, this obligation is not inconsistent with reasonable classification designed to subject all to the payment of their just share of a burden fairly imposed.

The manifest purpose of the exception in paragraph 2, 214(a), was to prevent the escape from taxation of income properly subject thereto by the purchase of exempt securities with borrowed money.

Under the theory of the respondent, A, with an income of \$10,000 arising from nonexempt securities by

Page 282 U. S. 520

the simple expedient of purchasing exempt ones with borrowed funds and paying \$10,000 interest thereon, would escape all taxation upon receipts from both sources. It was proper to make provision to prevent such a possibility. The classification complained of is not arbitrary, makes no improper discrimination, does not result in defeating any guaranteed exemption, and was within the power of Congress. The fact that respondent engaged in the business of buying and selling is not important. See *Willcuts v. Bunn*, ante, p. [282 U. S. 216](#) .

*Reversed.*