

Plaintiffs' Exhibit No. 71—(Continued)

1957, addressed to Robert B. Wyshak, together with enclosures. [43]

Plaintiffs object to Exhibit 60 upon the same grounds as set forth in their objection to Exhibits 53 through 58.

Ex. 61: Summary of annuity savings bonds sold by Sam Houston during 1953 and 1954.

Plaintiffs object to Exhibit 61 upon the same grounds as set forth in their objections to Exhibits 53 through 58.

Ex. 62: Letter of July 25, 1952, from Mr. Salley to E. I. McLarney.

Defendant objects to Exhibit 62 upon the ground that it is irrelevant and immaterial.

Ex. 63: Letter of August 1, 1952, from Treasury Department to Mr. Salley.

Defendant objects to Exhibit 63 upon the ground that it is irrelevant and immaterial.

Ex. 64: Letter from Texas Board of Insurance Commissioner dated September 29, 1953.

Defendant objects to Exhibit 64 upon the ground that it is irrelevant and immaterial.

Ex. 65: Ledger sheet from books and records of Sam Houston Life Insurance Company reflecting the opening, continuation, and closing of the annuity transactions between plaintiffs and the Company.

Defendant objects to Exhibit 65 upon the ground that it contains the conclusions of the [44] Sam Houston Life Insurance Company.

Ex. 66: Examination report of the State of

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Texas Insurance Department covering the Sam Houston Life Insurance Company's activities from May 31, 1951, through December 31, 1953.

Defendant objects to Exhibit 66 upon the ground that it is irrelevant, immaterial, and incompetent, not the best evidence, and contains opinion evidence.

Ex. 67-68: Records of Sam Houston Life Insurance Company reflecting types and numbers of policies in force at the end of 1953 and 1954, respectively.

Defendant objects to Exhibits 67 and 68 upon the ground that they are irrelevant and immaterial.

Ex. 69-70: The 1955 and 1956 Federal income tax returns filed by plaintiffs, respectively.

Defendant objects to Exhibits 69 and 70 upon the ground that they are irrelevant and immaterial.

IV.

The following facts are admitted and require no proof:

(1) The plaintiffs are, and were at all times pertinent hereto, husband and wife.

(2) Plaintiffs' method of accounting, for purposes of reporting their 1953 and 1954 income on their Federal income tax returns, was on the cash basis.

(3) The following amounts were paid by the plaintiffs to the District Director of Internal Revenue [45] pursuant to deficiency assessments for the periods there set forth on the following dates:

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Year 1953	Date Paid
Tax \$113,684.48	July 9, 1956
Int. 15,795.91	July 27, 1956

Year 1954

Tax \$119,613.20	July 9, 1956
Int. 8,844.82	July 27, 1956

(4) On or about December 11, 1953, Knetsch delivered Exhibit 1 (entitled "Application for an Annuity") and Exhibit 2 (Knetsch's check in the sum of \$4,000.00 payable to the Sam Houston Life Insurance Company (hereinafter referred to as the Company)).

(5) Thereafter the company issued to the plaintiff Knetsch Exhibits 3 through 12, the Annuity Savings Bonds, in exchange for the said \$4,000 check and the execution and delivery by Knetsch of Exhibits 13 through 22, the Annuity Loan Notes.

(6) Thereupon, Knetsch delivered to the company a check for \$140,000.00, Exhibit 23, an amount equal to $31\frac{1}{2}\%$ of the total principal amount (\$4,000,000.00) of the Annuity Loan Notes. Thereupon the company delivered its receipt, Exhibit 24, to Knetsch.

(7) On or about December 16, 1953, the company delivered to Knetsch a check for \$99,000 (Exhibit 25).

(8) At or about the same time Knetsch executed and delivered to the company Exhibits 26 through 35, Annuity Loan Notes.

(9) At or about the time of the receipt of the [46] \$99,000 by Knetsch from the company, Knetsch

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delivered to the company a check for \$3,465, Exhibit 36, a sum equal to $31\frac{1}{2}\%$ of \$99,000.

(10) Upon receipt of said check for \$3,465, the company issued to the plaintiff its receipt, Exhibit 37.

(11) On or about December 30, 1954, but prior to the expiration of 1954, Knetsch executed and delivered 10 new Annuity Loan Notes, Exhibits 38 through 47 upon receipt from the company of Exhibits 26 through 35, each of the latter being marked "cancelled".

(12) After delivery to the company of Exhibits 38 through 47, the company delivered on December 30, 1954, to the plaintiff a check for \$104,000, Exhibit 48.

(13) Concurrently with the receipt by the plaintiff of the said \$104,000, plaintiff delivered to the company on December 30, 1954, a cashier's check for \$143,465.00, Exhibit 49, and another check for \$3,640, Exhibit 50.

(14) On December 30, 1954, and upon the receipt of the two checks, Exhibits 49 and 50, the company delivered to Knetsch Exhibit 51 and Exhibit 52.

(15) The plaintiffs claimed a deduction as interest paid for the \$140,000 and the \$3,465 paid to Sam Houston during 1953 on their 1953 Federal income tax return, and the \$143,465 and the \$3,640 paid to Sam Houston during 1954 on their 1954 Federal income tax return. It was these amounts totaling \$143,465.00 for 1953 and \$147,105.00 for 1954 which were disallowed by the Commissioner of [47] Internal Revenue.

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(16) Sam Houston entered on its books the aforementioned amounts of \$143,465.00 and \$147,105.00 received from Knetsch as interest and also reported the two said sums as part of its gross income in its 1953 and 1954 Federal income tax returns filed with the Internal Revenue Service. In said 1953 and 1954 returns, in accordance with the applicable laws and regulations, the company included the 2½% annual increase in cash value on said bonds as a deduction.

(17) On December 28, 1955, Knetsch executed and delivered new annuity loan notes comparable to those executed in 1953 and 1954 totalling \$307,000, and paid the company \$150,745.00, while receiving, at the same time, the company's check for \$104,000.00 and Exhibits 38 through 47 marked "cancelled."

(18) On their 1955 joint Federal income tax return, Exhibit 70, plaintiffs claimed a deduction for interest paid in the sum of \$150,745.00 representing the \$150,745.00 referred to in paragraph 17 hereof.

(19) On December 27, 1956, Knetsch surrendered the ten Annuity Savings Bonds (Exhibits 3 through 12) and received therefor a check for \$1,000.00 and a cancellation of his alleged indebtedness at that time of \$4,307,000.00. Upon said surrender Knetsch received from the company the Annuity Loan Notes, Exhibits 13 through 22, and the ten Annuity Loan Notes, referred to in paragraph 17 hereof, the latter totalling \$307,000.00 [48] which had been delivered to the company on December 28, 1955. The

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said Annuity Loan Notes, referred to in the preceding sentence, were marked "cancelled."

(20) On their 1956 joint Federal income tax return, plaintiffs reported the sum of \$6,074.58 as their net taxable income. In computing the aforesaid reported net taxable income of \$6,074.58 plaintiffs first claimed a deduction, under the claimed authority of Section 165, Internal Revenue Code of 1954, in the sum of \$138,315.00 as a loss from the surrender of the ten Annuity Savings Bonds. Plaintiffs computed the claimed deduction as follows:

Interest deducted on returns:

1953	\$143,465
1954	147,105
1955	150,745

\$441,315

Cash paid at time of purchase 4,000

\$445,315

Less:

Amounts received from company

1953	\$ 99,000
1954	104,000
1955	104,000

\$307,000 \$138,315

Plaintiffs' computation, as shown above, was in

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error in that the \$1,000 received upon surrender of the bonds was not taken into account.

(21) Had Knetsch continued to hold said ten Annuity Savings Bonds to maturity when they would have [49] had a guaranteed cash value of \$8,388.000, and continued to execute annuity loan notes and assignments each year for the total net cash value minus \$1,000, he would have received on maturity an annuity of \$43 per month. At that time he would have been 90 years old.

(22) Literature comparable to Exhibit 60, but referring to single premium annuities, rather than several pay annuities, was sent in answer to inquiries during 1953 and 1954, by the company. Knetsch received such comparable literature.

(23) The figures and information published by Best's Reports, Exhibits 53 through 58, are in substance true and accurate.

(24) The cash value of the bonds, and the reserve used by the company, increased each year at the rate of 2½% of the amount allegedly owed on each bond.

(25) Over 99% of the reserve carried by the company on its books for annuities for the years 1952, 1953 and 1954 was for 30-year single premium deferred annuity savings bonds.

(26) During the years 1953 and 1954 Sam Houston employed approximately 75 insurance salesmen.

(27) During the years 1953 and 1954, Sam Houston sold 20-year term life insurance, ordinary life insurance, annual renewable term policies, 20 pay-

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ment life insurance policies, and some annuities to members of the armed forces.

(28) The Sam Houston Life Insurance Company is a corporation domiciled in the State of Texas.

(29) The policy loans made by the company and set [50] forth on its balance sheets were in large part on annuity savings bonds, such as those purchased by Knetsch.

(30) The annuity bond, referred to in Exhibit 62, is similar to the annuity bonds which were issued to Knetsch. The only difference was that the annuity contract, referred to in Exhibit 62, which was submitted to the U. S. Internal Revenue Service along with Exhibit 62, was a participating contract whereas the annuity bonds issued to Knetsch were not.

(31) The form of the bond issued to Knetsch had been submitted to the Texas Board of Insurance Commissioners prior to September 29, 1953.

(32) Antedating life insurance and annuity contracts is common practice by insurance companies.

V.

The reservations as to the facts cited in paragraph IV above are as follows:

(1) Plaintiffs object to paragraph 22 on the grounds that the fact is neither relevant, nor material to the issue of whether plaintiffs paid interest in the sums of \$143,456.00 and \$147,105.00 to the company in 1953 and 1954 respectively.

(2) Defendant objects to paragraphs 16, 17, 18,

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the last two sentences of 19, 20, 26, 27, 28, 30, 31 and 32, upon the ground that they are irrelevant and immaterial.

VI.

There are no unadmitted facts which will be contested at the trial. [51]

VII.

The following issues of fact, and no others, remain to be litigated upon the trial:

(1) Whether Knetsch did not intend to become indebted to the company.

(2) Whether Knetsch did not become indebted to the company during 1953 and 1954.

(3) Whether the sums of \$99,000 in 1953 and \$104,000 in 1954, received by Knetsch from the company, reduce the deductions found by this Court, if any, for payments made by Knetsch to the company in those years.

(4) Whether Knetsch's transaction with the company had economic substance insofar as he was concerned.

VIII.

The following issues of law, and no others, remain to be litigated upon the trial:

(1) Whether issues of fact 1, 3, and 4, are issues for the Court's determination.

(2) Whether the 1953 payment of \$140,000 did or did not constitute interest within the meaning of Section 23(b), Internal Revenue Code of 1939.

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(3) Whether said \$140,000 was deductible in the year 1953, or in some other year.

(4) Whether the 1953 payment of \$3,465 did or did not constitute interest within the meaning of Section 23(b) of Internal Revenue Code of 1939.

(5) Whether said \$3,465 was deductible in the [52] year 1953, or in some other year.

(6) Whether the 1954 payment of \$143,465 did or did not constitute interest within the meaning of Section 163, Internal Revenue Code of 1954.

(7) Whether said \$143,465 was deductible in the year 1954, or in some other year.

(8) Whether the 1954 payment of \$3,640 did or did not constitute interest within the meaning of Section 163, Internal Revenue Code of 1954.

(9) Whether said \$3,640 was deductible in the year 1954, or in some other year.

(10) Whether the increase in cash value each year on said bonds was includible in Knetsch's income each year.

(11) Whether the sums of \$99,000 in 1953 and \$104,000 in 1954, received by Knetsch from the company, reduce the deductions found by this Court, if any, for payments made by Knetsch to the company in those years.

(12) Whether Knetsch's transaction with the company had economic substance insofar as he was concerned.

(13) Whether Exhibits 53 through 64, and 66 through 70, are irrelevant and immaterial.

(14) Whether paragraphs 16, 17, 18, the last two

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sentences of 19, 20, 22, 26, 27, 28, 30, 31, and 32,
are irrelevant and immaterial.

IX.

The foregoing admissions having been made by
the parties, [53] and the parties having specified
the foregoing issues of fact and law remaining to be
litigated, this order shall supplement the pleadings
and govern the course of the trial of this cause,
unless modified to prevent manifest injustice.

July 21, 1958.

/s/ WM. C. MATHES,
United States District Judge.

Approved as to Form and Content:

McLANE & McLANE,

/s/ By NOLA McLANE,
Attorneys for Plaintiffs.

LAUGHLIN E. WATERS,
United States Attorney,

EDWARD R. McHALE,
Assistant U. S. Attorney,
Chief, Tax Division,

ROBERT H. WYSHAK,
Assistant U. S. Attorney,

/s/ ROBERT H. WYSHAK,
Attorneys for Defendant. [54]

[Endorsed]: Filed July 22, 1958.

[Title of District Court and Cause.]

MINUTES OF THE COURT

Date: Aug. 4, 1958, at Los Angeles, Calif.

Present: Hon. Wm. C. Mathes, District Judge
(calling calendar of Hon. Wm. M. Byrne).

Deputy Clerk: Chas. E. Jones; Reporter: Don
P. Cram.

Counsel for Plaintiffs: W. Lee McLane and Nola
McLane. Counsel for Defendant: Robert H. Wy-
shak, Assistant U. S. Attorney.

Proceedings: For trial.

Attorney Nola McLane moves to admit Attorney
W. Lee McLane to appear in this case only, and
Court grants said motion.

Plfs' Ex. 1 to 52 incl. are marked for ident. and
admitted in evidence.

Plfs' Ex. 53 to 70 incl. are marked for ident.

It Is Ordered that cause is continued to 10 a.m.,
Aug. 5, 1958, for further trial.

JOHN A. CHILDRESS,

Clerk,

/s/ By CHARLES E. JONES,
Deputy Clerk. [55]

[Title of District Court and Cause.]

MINUTES OF THE COURT

Date: Aug. 5, 1958, at Los Angeles, Calif.

Present: Hon. Wm. C. Mathes, District Judge.

Deputy Clerk: Chas. E. Jones; Reporter: Don
P. Cram.

Counsel for Plaintiff: W. Lee McLane, Jr. Counsel for Defendant: Robert H. Wyshak, Assistant U. S. Attorney.

Proceedings: For further Court trial.

Plf's Ex. 53 to 61 incl. are marked for ident. and admitted in evidence.

Plf's Ex. 62 and 63 are marked for ident. only.

Plf's Ex. 64 to 70 incl. are marked for ident. and admitted in evidence.

Plf's Ex. 71 is marked for ident. only.

Court orders that briefs be filed, plaintiff to file opening brief in thirty days, defendant to file answering brief twenty days thereafter, and plaintiff to file closing brief fifteen days after filing of defendant's answering brief.

It Is Ordered that case is continued to 2 p.m., Oct. 20, 1958, for further trial. (Oral argument.)

JOHN A. CHILDRESS,
Clerk.

/s/ By CHARLES E. JONES,
Deputy Clerk. [156]

[Title of District Court and Cause.]

MINUTES OF THE COURT

Date: Oct. 20, 1958, at Los Angeles, Calif.

Present: Hon. Wm. C. Mathes, District Judge.

Deputy Clerk: Chas. E. Jones; Reporter: Don P. Cram.

Counsel for Plaintiff: W. Lee McLane, Jr. Counsel for Defendant: Robert H. Wyshak, Assistant U. S. Attorney.

Proceedings: For further Court trial (oral argument).

Both sides argue.

Court finds in favor of defendant and against plaintiff. S

Counsel for defendant to prepare judgment.

JOHN A. CHILDRESS,
Clerk.

/s/ By CHARLES E. JONES,
Deputy Clerk. [163]

[Title of District Court and Cause.]

PLAINTIFFS' OBJECTIONS TO DEFENDANT'S PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Findings of Fact and Conclusions of Law having been submitted by defendant, plaintiffs set forth the following objections thereto.

Findings of Fact

I-II. No objection. [164]

III. No objection except with respect to the fourth and final sentences thereof. The fourth sentence is objected to for the reason that it is too general and vague, and is not supported by the record. The final sentence is objected to for the reason that it indicates plaintiff Knetsch did not have the use of \$4,000,000 which finding is not supported by the record.

IV. Objection is made here for the reason that

the evidence upon which the finding is based was not relevant to the issue of whether plaintiffs were indebted to Sam Houston.

V-VI. No objection.

VII. Objection is made for the reason that this finding is not supported by the evidence.

VIII. Objection is made for the reasons that this finding is (1) not supported by the evidence and (2) is not relevant to a determination of whether or not indebtedness exists.

IX. Objection is made for the reasons that the finding is (1) not supported by the evidence (2) is not relevant to a determination of whether or not indebtedness exists, (3) is contradicted by paragraph 21 of IV of the Pre-Trial Conference Order which stated that had Knetsch continued to execute annuity loan notes for the total net cash value minus \$1,000 each year he would receive on maturity an annuity of \$43 per month, (4) it contradicts the computation agreed to between the Government and the taxpayer in *United States v. Bond*, 35 F. 2d 100, (5th Cir. 1958), [165] concerning the same annuity contracts issued by Sam Houston, which reflect that at the end of ten years the contract accumulations exceed the interest payment, see *United States v. Bond*, supra, at footnote 13, and (5) it ignores the economic gain to be achieved by the ownership of such annuity contracts during periods of deflation when 2 and 3/4% return is greater than the then prevailing interest rates.

X. No objection.

XI. Objection is made to this finding for the

reasons that it (1) indicates an annuity with payments certain is not an annuity within the meaning of Section 24(a)(6), Internal Revenue Code of 1939 and Section 264, Internal Revenue Code of 1954, (2) indicates that the beneficiary has a right to obtain the net cash value of the annuities prior to maturity, and (3) constitutes a conclusion of law rather than of fact.

XII. Objection is made to the phrase "alleged loans" for the reason that there is no evidence in the record to support a finding that loans did not exist, and because the type of security or lack of it does not bear on the issue of whether indebtedness existed. Also objection is made to the second sentence for the reason that the term "whatever" is too broad and the sentence is a conclusion of law rather than of fact.

XIII. Objection is made to this finding for the reasons that (1) it is not supported by the evidence, and (2) is not relevant to the issue of whether indebtedness existed.


XIV. Objection is made to this finding for the reasons that (1) it [166] is not supported by the evidence and (2) is not relevant to the issue of whether indebtedness existed.

XV. Objection is made to this finding for the reasons that (1) it is not supported by the evidence, and (2) is a conclusion of law rather than a finding of fact.

XVI. Objection is made to this finding for the reason that it is not supported by the evidence.

XVII. Objection is made to this finding for the

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same reasons set forth in IX hereof, and because the receipt of money is not a pre-requisite to the existence of indebtedness within the meaning of Section 23(b), Internal Revenue Code of 1939 and Section 163, Internal Revenue Code of 1954.

XVIII. Objection is made to this finding for the reasons that (1) it is not supported by the evidence, and (2) is a conclusion of law rather than a finding of fact.

XIX. Objection is made to this finding for the reason that (1) it is not supported by the evidence, and (2) is not relevant to the issue of whether plaintiff Knetsch was indebted to Sam Houston.

Conclusions of Law

I. No objection.

II. Objection is made to this conclusion for the reasons that (1) it [167] is not necessary either under Sections 23(b) of the 1939 Internal Revenue Code or Section 163 of the 1954 Internal Revenue Code that a taxpayer enter into a transaction for profit before an interest deduction is permitted (See reasons set forth in plaintiffs' briefs herein), (2) the conclusion is not supported by the evidence herein, and (3) the statement is a finding of fact rather than a conclusion of law.

III. Objection is made to this conclusion for the reasons that (1) it is without support in the evidence, and (2) it does not find support in either

the 1939 or 1954 Internal Revenue Codes or the case law.

IV. Objection is made to this conclusion for the reasons that (1) the fact that a loan is secured upon the sole recourse of the asset sold does not mean there is no indebtedness, and (2) the conclusion is not relevant to the issue of whether indebtedness existed.

V. Objection is made to this conclusion for the reasons that (1) "commercial" substance is not a pre-requisite to the allowance of an interest deduction under either Section 23(b) of the 1939 Internal Revenue Code or Section 163 of the 1954 Internal Revenue Code, (2) is a misstatement or misapplication of the "substance over form" rule, and (3) is without support in law.

VI. Objection is made to this conclusion for the reasons that (1) neither money nor an economic benefit is a pre-requisite to the allowance of an interest deduction under either Section 23(b) of the 1939 Internal Revenue Code or Section 163 of the 1954 Internal Revenue Code, (2) it is not supported by the evidence herein, (3) is without [168] support in law and (4) constitutes a finding of fact rather than a conclusion of law.

VII. Objection is made to this conclusion for the reasons that (1) it is not supported by the evidence, (2) is without support in law, and (3) is a misapplication of the "substance over form" rule.

VIII. Objection is made to this conclusion for

the reasons that (1) it is not supported by the evidence, and (2) is without support in law.

IX. Objection is made to this conclusion for the reason that it ignores the relationship between Section 23(b) and 24(a)(6) of the 1939 Internal Revenue Code and the language of the Committee reports referred to in plaintiffs' briefs herein.

X. Objection is made to this conclusion for the reason that it is not supported by the evidence or the applicable law.

In addition to the foregoing objections to defendant's findings of fact and conclusions of law, plaintiffs also set forth as their reasons the contentions found in their opening and reply brief. Also it is pointed out that defendant's conclusions of law Nos. II, III, IV, V, and VI are virtually verbatim copies of defendant's findings of fact Nos. VIII, XV, XII, XIII and XVII.

Respectfully submitted,

McLANE & McLANE,
/s/ By NOLA McLANE,
Attorneys for Plaintiffs. [169]

[Endorsed]: Filed November 4, 1958.

United States District Court, Southern
District of California, Central Division

No. 577-57 WM Civil

KARL F. KNETSCH and EVA FAY KNETSCH,
Plaintiffs,

vs.

UNITED STATES OF AMERICA,
Defendant.

FINDINGS OF FACT; CONCLUSIONS LAW, AND JUDGMENT

The above-entitled matter having regularly come on for trial on August 4, 1958 before the Hon. Wm. C. Mathes, United States District Judge, presiding without a jury, the plaintiffs represented by their attorneys, McLane and McLane, by W. Lee McLane, Jr., and the defendant by its attorneys, Laughlin E. Waters, United States Attorney, Southern District of California, Edward R. McHale, Assistant United States Attorney, Chief, Tax Division, and Robert H. Wyshak, Assistant United States Attorney, and the Court having considered the stipulations of fact, documentary evidence, and arguments both oral and written of counsel, makes its findings of fact and conclusions of law as follows:

Findings of Fact

I.

The plaintiffs are husband and wife residing in the City and County of Los Angeles, State of California. [170]

II.

This is an action for recovery of federal individual income taxes paid by the plaintiffs for the years 1953 and 1954, on the ground that they are entitled to certain interest deductions.

III.

On December 11, 1953, the plaintiff Karl F. Knetsch (hereinafter referred to as the plaintiff), purchased 10 annuity savings bonds, from the Sam Houston Life Insurance Company, of Houston, Texas (hereinafter referred to as Sam Houston). At the same time, the plaintiff gave Sam Houston a check for \$4,000 and executed 10 "annuity loan notes and assignments of annuity savings bonds." Each of these notes was in the sum of \$400,000. The bonds provided that the interest rate on a loan note would be at the rate of 3½% per annum payable in advance. The bonds and notes referred to each other and were intended to be and were integrated documents. Each bond recited that it was in "consideration of the payment in advance of a single premium of \$400 in cash, and the execution of a contract loan agreement for \$400,000." The annuity loan notes provided that the alleged loans were to be applied to any unpaid premiums. Plaintiff did not receive \$4,000,000 from Sam Houston for any purpose.

IV.

Prior to the purchase of these 10 bonds, the plaintiff had been solicited by direct mail advertising from Sam Houston, which recited that a substantial

tax saving could be achieved by the purchase of such bonds. In addition, Sam Houston had so advertised in financial newspapers with regularity.

V.

On December 11, 1953, plaintiff paid Sam Houston \$140,000. [171] Shortly thereafter, Sam Houston returned to Knetsch \$99,000, and at the same time he executed 10 additional annuity loan notes for \$9,900 each. The plaintiff then paid Sam Houston an additional \$3,465 during 1953, 3½% of \$99,000.

VI.

On December 27, 1954, plaintiff paid Sam Houston \$143,465, and received in return from the company a check for \$104,000. The 10 annuity loan notes totalling \$99,000 were cancelled and 10 new ones were executed by him on December 30, 1954 in the sum of \$20,300 each. The plaintiff then paid Sam Houston an additional \$3,640, 3½% of \$104,000.

VII.

Plaintiff's only motive in purchasing these 10 bonds was to attempt to secure an interest deduction.

VIII.

Plaintiff did not enter into a transaction for profit in the purchase of these bonds.

IX.

The bonds called for annual interest at the rate of 3½% per annum and the increase in cash value