

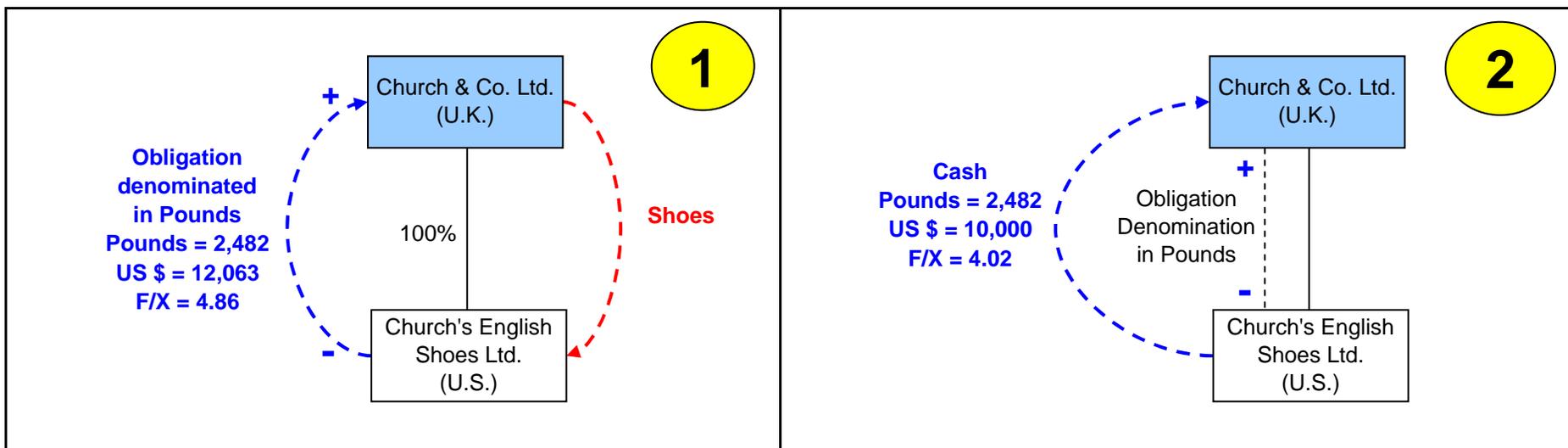
**Church's English Shoes, Ltd.  
v. Commissioner  
229 F.2d 957 (2d Cir. 1956)**

**Borrowing in Foreign Currency  
Treated as Separate From  
Inventory Purchase**

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**Purchase of Shoes (1936)**

**Payment of Obligation (1947)**



Church's English Shoes Ltd., a domestic corporation, was engaged in the business of selling imported shoes at retail. It was a wholly owned subsidiary of Church & Co., Ltd., a foreign corporation having its principal office in England. Church's English Shoes Ltd. purchased shoes, on credit, from Church & Co., Ltd. The invoice cost of the shoes in pounds sterling was 2,482. The rate of exchange on the dates of the purchases of shoes in 1935 was \$4.86 per pound sterling. Accordingly, the cost of the merchandise converted into dollars was \$12,063.30. Church's English Shoes Ltd. was allowed credit for the purchases by the seller who extended the credit from year to year until Church's English Shoes Ltd. paid the debt in 1947.

In 1947 the rate of exchange was \$4.02 per pound sterling. In 1947, for the sum of \$10,000, petitioner acquired 2,482 pounds sterling which it transferred to Church & Co., Ltd., in satisfaction of the indebtedness which was incurred in 1935. The difference between the dollar amount of the indebtedness incurred in 1935, payable in pounds sterling, and the amount of dollars expended in 1947 to pay the indebtedness in pounds sterling is \$2,063.30. There were two transactions, for accounting and tax purposes, one involving the purchase and sale of shoes, the other a "speculation" in foreign exchange. The gain should not be taxed as capital gain as there was no sale or exchange of a capital asset involved.