"The term 'interest' means any amounts, includible in gross income received for the use of money loaned. * * *". Regs. § 1.543–1(b)(2).

In *Mayflower Investment Company* v. *Commissioner*, 239 F. 2d 624 (5th Cir. 1956), affirming 24 T.C. 729 (1955), the Court held that the difference between an amount loaned by the taxpayer and the greater amount payable to it upon maturity of the note constituted "interest" for this purpose. As a consequence, the taxpayer was held to be a personal holding company and was subject to personal holding company tax.

In construing the word "interest" as extending to the income in question, the Court relied upon Section 29.503–2 of Regulations 111 under the 1939 Code, containing the language above quoted from the present Regulations § 1.543–1(b)(2), and upon the Supreme Court's definition in *Deputy* v. *du Pont*, 308 U.S. 488, 498 (1940), supra, that "interest" is "compensation for the use or forbearance of money".

C. Congress Has Manifested an Intent That Earned Original Issue Discount Should be Treated as Interest

Evidence that Congress considers gain from obligations issued at a discount to be governed by the source rules for interest is furnished by section 861(a)(1)(C) of the Code. Section 861(a)(1) provides that "interest" upon domestic obligations constitutes income from sources within the United States, with certain exceptions, of which the last is: "(C) income derived by a foreign central bank of issue from bankers' acceptances."

The assumption of Congress in enacting section 119(a)(1)(C) of the Rvenue Act of 1928, which was the statutory predecessor of the present rule, appears to have been that without special legislation, the acceptances of United States bankers would produce United States source income in all cases. H.R. Rep. No. 2, 70th Cong., 1st Sess. 21 (1927); S. Rep. No. 960, 70th Cong., 1st Sess. 29 (1928). At the time of that enactment foreign central banks could not rely upon the rulings holding that such income was not "fixed or determinable annual or periodical gains, profits and income" since, until the Revenue Act of 1936, the failure of United States source income to fit that description only relieved the withholding agent from the obligation to withhold and did not provide an exemption to the ultimate recipient. See I.T. 1398, I–2 C.B. 149, supra.

More recently Congress has demonstrated on various occasions that except where, as in section 861(a)(1)(C), it has provided otherwise, it considers that original issue discount income is to be treated the same as interest for income tax purposes. A prominent example of the congressional design that the two forms of income be equated is provided in section 1232 of the 1954 Code.

Subsections (a)(2) and (b) of Section 1232 were enacted in the Revenue Code of 1954 to provide rules governing the taxation of amounts received on the sale, exchange or retirement of post-1964 obligations issued at a discount. Section 117(f) of the 1939 Code had provided that amounts received upon retirement of bonds were to be considered as "received in exchange" for the bonds. With Section 117(f) as the starting point, it was logical to include the new provisions among those relating to capital gains and losses, and to state the general rule and the exceptions thereto in terms of gain from the