5 T.C. 472 (1945)

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When a taxpayer, after failing to redeem property following a tax sale, reacquires it at a scavenger sale due to a statutory privilege granted to former owners, the original cost basis associated with the initial ownership can be included in the new basis.

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Summary

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F. P. E. Noteholders Corporation, after failing to redeem property subject to a tax sale, purchased it at a Michigan "scavenger sale." The Tax Court addressed whether the corporation could include the $25,000 it originally invested in the property's redemption rights as part of its cost basis. The court held that the corporation could include the $25,000 in its basis because, under Michigan law, the corporation retained a privilege as a former owner that allowed it to reacquire the property, connecting the later title with the initial investment.

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Facts

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Francis Palms Estate Properties, Inc., underwent a 77-B reorganization, resulting in the formation of F. P. E. Noteholders Corporation. As part of the reorganization, the corporation was to manage and liquidate certain real estate, including Chesterfield Farm. Chesterfield Farm was acquired by the State of Michigan at a tax sale on May 1, 1938. The corporation acquired the right to redeem Chesterfield Farm, but failed to do so within the statutory period, which expired on November 3, 1939. In February 1940, the corporation purchased Chesterfield Farm at a scavenger sale for $21,464.86. The corporation sought to include a $25,000 value, representing the initial cost of the redemption rights, in the cost basis of the property.

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Procedural History

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The Commissioner of Internal Revenue disallowed the inclusion of the $25,000 in the corporation’s cost basis. The corporation appealed to the Tax Court, arguing that the $25,000 represented a legitimate part of the property’s cost to them. The Tax Court initially entered a memorandum opinion, but after a motion for reconsideration conceded by the respondent, the court addressed the substantive issue.

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Issue(s)

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Whether the petitioner, in computing its basis for property acquired at a

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