5 T.C. 702 (1945)

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When a partnership dissolves and one partner buys out the other's interest, the purchasing partner's cost basis in the acquired assets is allocated proportionally, and losses from sales between family members are not deductible.

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Summary

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Two brothers, Nathan and Louis Blum, operated a wholesale men's furnishings business as equal partners. They dissolved the partnership, with Nathan buying Louis's share for $16,500 and assuming all liabilities. Nathan continued the business. The IRS determined that Nathan's cost basis in the assets was different from the book value and reallocated income based on this new basis. Louis deducted a loss from the sale, which the IRS disallowed because it was a sale to a family member. The Tax Court upheld the IRS's determinations, finding that the cost basis reallocation was proper and that losses from sales between family members are not deductible, regardless of the transaction's bona fides. The court also upheld a penalty against Louis for late filing of his tax return.

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Facts

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- Nathan and Louis Blum were equal partners in a wholesale men's furnishings business called

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