6 T.C. 499 (1946)

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The purchase of a partnership interest by the remaining partners does not, by itself, adjust the cost basis of the partnership's capital assets; the original cost basis to the partnership remains determinative for calculating gain or loss.

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Summary

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In 1932, the Fords formed a partnership. In 1938, the remaining partners purchased Sara Ford's one-third interest. In 1941, the partnership sold capital assets, and the partners claimed their share of the loss based on the original cost to the partnership. The Commissioner adjusted the cost basis to reflect the purchase of Sara Ford's interest. The Tax Court held that the purchase of the partnership interest did not warrant adjusting the cost basis of the partnership's capital assets. The original cost to the partnership should be used. The court also addressed a war loss deduction related to Italian bonds held by the partnership.

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Facts

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The petitioners, the Fords, formed a partnership in 1932 called "The Luther Ford Investment Company" to buy and sell securities. On November 26, 1938, the remaining partners purchased Sara C. Ford's 9/27 interest in the partnership for cash. The remaining partners continued the business under the same name without interruption. In December 1941, the partnership sold certain securities at a loss and distributed American Radiator stock to the partners, who immediately sold the stock, calculating their loss on the original cost basis to the partnership. The partnership also owned bonds of an Italian company.

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Procedural History

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The Commissioner determined deficiencies in the Fords' 1941 income taxes. The Commissioner adjusted the cost basis of the securities sold and the American Radiator stock to reflect the purchase of Sara Ford's partnership interest, allowing two-thirds of the original cost plus one-third of the market value on the purchase date. The Fords petitioned the Tax Court, claiming overpayment. The cases were consolidated.

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Issue(s)

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1. Whether the cost basis of partnership assets should be adjusted upon the purchase of the interest of a withdrawing partner.

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2. Whether the petitioners are entitled to deduct in 1941 a loss with respect to bonds of an Italian company, under Section 127 of the Internal Revenue Code.

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Holding

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1. No, because the purchase of a partnership interest by the remaining partners does not, by itself, adjust the cost basis of the partnership's capital assets.

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2. Yes, because the partnership owned the Italian bonds on the date the United States declared war with Italy, and the bonds are therefore considered destroyed or seized under Section 127 of the Internal Revenue Code.

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Court's Reasoning

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Regarding the basis adjustment, the court emphasized that the partnership is a separate unit for computing income tax liabilities. The purchase of a partnership interest by the remaining partners doesn't alter the partnership's assets or its

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computing unit status. The court stated,

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