Goldsmith Bros. v. Commissioner, 16 T.C. 1111 (1951)

The allowable depreciation for a tax year must be determined based on the facts reasonably known to exist at the end of that year, not on hindsight or subsequent information.

Summary

Goldsmith Bros. claimed depreciation on a building at 3% per annum from 1915 to 1940, except for 3.5 years. Starting in 1940, they conceded the rate should have been 2%. The IRS argued that for the 3.5 years when no depreciation was claimed, the 3% rate should still apply when calculating the adjusted basis. The Tax Court initially sided with Goldsmith Bros., but the Sixth Circuit remanded the case. The Tax Court, on remand, held that the original 3% rate should be used for those years, based on the facts known at the time, emphasizing that depreciation should be assessed annually, and not retroactively adjusted.

Facts

- Goldsmith Bros. claimed and was allowed a 3% annual depreciation rate on a building between 1915 and 1940, with exceptions for certain years.
- For 3.5 years (six months in 1915, all of 1916, 1917, and 1921), Goldsmith Bros. did not claim any depreciation.
- Beginning in 1940, it was conceded that the correct depreciation rate should have been 2% per annum.
- The Commissioner argued the 3% rate should be used for the years when no depreciation was taken to calculate the adjusted basis, while Goldsmith Bros. wanted to use the 2% rate retroactively.

Procedural History

- The Tax Court initially ruled in favor of Goldsmith Bros., citing its prior decision in *Mutual Fertilizer Co.*
- The Sixth Circuit Court of Appeals reversed and remanded the case for further proceedings consistent with its opinion.
- The Fifth Circuit Court of Appeals reversed the Tax Court’s decision in *Commissioner v. Mutual Fertilizer Co.*
- The Tax Court then reconsidered the *Goldsmith Bros.* case on remand.

Issue(s)

1. Whether the depreciation

© 2025 SCOTUSreports.com. All rights reserved.