9 T.C. 199 (1947)

Real estate taxes paid by a purchaser of property are deductible if, at the time of acquisition, there was neither a tax lien on the property nor personal liability on the seller for payment of the taxes.

Summary

Adda, Inc. purchased a building in New York City in August 1940. In October 1940, it received a real estate tax bill for the year July 1940 to June 1941, which it paid. Adda sought to deduct the full amount of the taxes. The Commissioner disallowed a portion of the deduction. The Tax Court held that Adda could deduct the full amount of the real estate taxes because, under New York law, there was no lien on the property and no personal liability on the seller for the taxes when Adda acquired the property. The court also addressed other issues, including the deductibility of advance rents as interest, the allocation of the purchase price between land and building, and the useful economic life of the building for depreciation purposes.

Facts

Adda, Inc. purchased a building in New York City on August 5, 1940. The purchase price was $5,800,000. On October 1, 1940, Adda received a real estate tax bill for the period of July 1, 1940, to June 30, 1941, totaling $199,660. Adda paid the tax bill in full. Adda's sole shareholder, Bond Stores, Inc., occupied a portion of the building. The building was a two-story structure with a penthouse, located on a valuable piece of land in New York City. The building's construction in 1935-36 occurred during a depression, leading to a smaller structure than the land's value would typically warrant.

Procedural History

Adda, Inc. filed its income tax return for the fiscal year ended June 30, 1942, and claimed deductions for real estate taxes and depreciation. The Commissioner of Internal Revenue determined a deficiency, reducing the amount claimed as a deduction for depreciation and adjusting the net operating loss from the preceding year. Adda petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether Adda is entitled to deduct the full amount of real estate taxes paid for the year July 1, 1940, to June 30, 1941, despite purchasing the building after the tax year began.
2. Whether Adda can deduct advance rents as interest.
3. Whether the Commissioner correctly allocated the purchase price between the land and building.
4. What is the useful economic life of the building for depreciation purposes?

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Holding

1. Yes, because at the time Adda acquired the property, there was neither a tax lien nor personal liability on the seller.
2. No, because Adda failed to prove that the amount of advance rents constituted

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