12 T.C. 1204 (1949)

Expenditures for acquiring a liquor license with a reasonably anticipated renewal privilege are considered capital expenditures, not deductible as ordinary business expenses in the year of acquisition.

Summary

Nachman and Tobias, a partnership, sought to deduct $8,000 paid to acquire a liquor license in Jacksonville, Florida. The city limited the number of licenses and favored renewals. The Tax Court held that the $7,250 beyond the actual license fee was a capital expenditure. This was because it provided the reasonably anticipated privilege of license renewal, creating an asset with an indeterminate life extending beyond the taxable year. Therefore, it was not deductible as a business expense in 1944.

Facts

In 1944, Morris Nachman and William Tobias formed a partnership to operate a retail liquor store in Jacksonville, Florida. Jacksonville ordinances limited the number of liquor licenses issued. The city's licensing inspector favored renewing licenses to existing holders. Due to these restrictions, individuals were willing to pay a premium to acquire existing licenses. Nachman and Tobias paid $8,000 to Bryan, a prior licensee, to acquire his license for the year ending September 30, 1944. This included back license fees Bryan owed to the city and the fee for the license. The standard license fee was $750. Bryan requested that his license be issued directly to the partnership. The partnership obtained renewals in subsequent years.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the income taxes of Nachman and Tobias, disallowing a deduction claimed by their partnership for the $8,000 payment. The Tax Court consolidated the proceedings for hearing and opinion.

Issue(s)

Whether the $8,000 expenditure to acquire a liquor license, including the anticipated privilege of renewal, is fully deductible as an ordinary and necessary business expense or a loss sustained in a transaction entered into for profit during the taxable year.

Holding

No, because $7,250 of the $8,000 payment constituted a capital expenditure for the reasonably anticipated privilege of obtaining similar licenses in subsequent years, an asset with an indeterminate useful life extending beyond the taxable year.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The Tax Court determined that the bulk of the $8,000 payment was for the

© 2025 SCOTUSreports.com. All rights reserved.