***15 T.C. 41 (1950)***

A loss is deductible when a company sells property to an independent purchaser in an arm's-length transaction and simultaneously leases it back, provided the lease term is less than 30 years and the sale is bona fide.

**Summary**

Standard Envelope Manufacturing Co. sold its land and buildings and simultaneously leased the property back. The company sought to deduct the loss from the sale. The IRS disallowed the deduction, arguing the sale was not bona fide. The Tax Court held that the sale was indeed bona fide and at arm's length to an independent investor, and the company could deduct the loss. The court emphasized the lack of control the company had over the buyer and the fact that the lease term was less than 30 years.

**Facts**

Standard Envelope Manufacturing Co. occupied land and buildings under a 99-year lease. The company's business grew, and its existing facilities became inadequate. The company considered building an addition but was dissatisfied with the terms of its existing lease, which it considered burdensome. Standard Envelope exercised its option to purchase the land for $125,000. Shortly after, the company sold the land and buildings to Edward Meisel for $70,000 and leased the property back for 24 years at an annual rental of $6,000, with the lessee paying for heat, utilities, insurance, repairs and taxes. Meisel was an independent investor with no prior connection to the company.

**Procedural History**

Standard Envelope Manufacturing Co. deducted a loss from the sale on its 1944 tax return, which the Commissioner of Internal Revenue disallowed. The Tax Court reviewed the Commissioner's determination.

**Issue(s)**

Whether the petitioner is entitled, under section 23(f) of the Internal Revenue Code, to deduct from income a loss allegedly suffered by it from the sale of land and buildings which were used in its trade or business.

**Holding**

Yes, because the sale to an independent third party was bona fide, at arm's length, and the lease term was less than 30 years, therefore, the loss is deductible under section 23(f) of the Internal Revenue Code.

**Court's Reasoning**

The Tax Court determined that the sale was a bona fide business transaction. There was no evidence of any relationship or agreement between the company and Meisel other than that of buyer and seller. Meisel had no connection with the company. The transaction was entered into at arm's length and resulted in the absolute transfer of the fee in the property to Meisel. The court emphasized that the lease-back agreement did not include a repurchase option or a renewal option, and the lease term was for less than 30 years. The court distinguished the case from cases involving transactions between a taxpayer and corporations dominated by the taxpayer, where the claimed loss was disallowed because there had been no change in the taxpayer's economic position. The court noted that a taxpayer may give consideration to the tax consequences of transactions, as long as the sale is a bona fide one, consummated at arm's length. The company demonstrated valid business purposes for the sale, including the desire to expand its physical facilities.

**Practical Implications**

This case clarifies that a sale-leaseback transaction can result in a deductible loss for tax purposes, provided that the sale is bona fide, at arm's length to an independent purchaser, and the lease term is less than 30 years. It emphasizes the importance of documenting the business reasons for the sale and ensuring that the transaction is structured to reflect a genuine transfer of ownership. Attorneys structuring sale-leaseback transactions should ensure the absence of repurchase options and avoid lease terms that could be construed as the equivalent of a fee simple interest, as defined by Treasury Regulations. Later cases may distinguish this ruling if there's evidence of collusion, control, or other factors indicating the transaction was not truly at arm's length.

 