4 T.C. 392 (1944)

A life tenant who constructs a building on property is entitled to a depreciation deduction based on the building's useful life, not the life tenant's life expectancy, as if the life tenant were the absolute owner of the property.

Summary

Polly, a life tenant, erected a building on the property and sought to deduct depreciation based on her life expectancy of seven years, rather than the building's 50-year useful life. The Tax Court held that Internal Revenue Code Section 23(l) mandates that depreciation for a life tenant be computed as if the life tenant were the absolute owner, meaning depreciation is based on the asset's useful life. The court rejected Polly's argument that this rule only applies to property already improved when received by the life tenant, finding no such limitation in the statute's language or intent.

Facts

Polly and her husband conveyed property to their daughter, reserving a life estate for themselves. Polly subsequently erected a building on the property, using her own funds. She claimed a depreciation deduction on her income tax return based on her remaining life expectancy of seven years. The Commissioner of Internal Revenue determined that the depreciation should be calculated based on the building's useful life of 50 years.

Procedural History

The Commissioner disallowed Polly's claimed depreciation deduction, determining that it should be calculated based on a 50-year useful life of the building. Polly petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether a life tenant who erects a building on the property can depreciate the building based on her life expectancy, or whether the depreciation must be calculated based on the building's useful life as if she were the absolute owner?

Holding

1. No, the depreciation must be calculated based on the building's useful life because Section 23(l) of the Internal Revenue Code mandates that depreciation for a life tenant be computed as if the life tenant were the absolute owner of the property.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The Tax Court relied on the plain language of Section 23(l) of the Internal Revenue Code, which states that the depreciation deduction "shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant." The court rejected the petitioner's argument that the statute only applied to properties that were "improved real estate" when received by the life tenant, stating that the statute contains no such limitation. The court emphasized that real estate without improvements isn't subject to depreciation, so the use of "improved" merely acknowledges that fact. The court also cited legislative history, noting a Senate Report indicating that the depreciation deduction for life tenants should be calculated "in accordance with the estimated useful life of the property." Furthermore, the court distinguished the case from cases involving purchased life estates, where the life estate itself is the capital asset, not the physical property. Finally, the court noted that the building's construction seemed intended to benefit both Polly and her daughter, the remainderman, further supporting the application of the statute.

Practical Implications

The *Polly* case clarifies that life tenants are treated as absolute owners for depreciation purposes, regardless of whether the improvements were already on the property when the life estate was created or were later constructed by the life tenant. This prevents life tenants from taking accelerated depreciation deductions based on their shorter life expectancies when they make capital improvements. This ensures that depreciation deductions reflect the actual useful life of the asset, benefiting the remainderman. This ruling emphasizes the importance of the plain language of the statute and legislative intent when interpreting tax laws. Later cases would cite this to reiterate the principal and to show how the depreciation deduction is calculated for other types of ownership.

© 2025 SCOTUSreports.com. All rights reserved.