17 T.C. 870 (1951)

When a corporation acquires property at a price significantly exceeding its fair market value, primarily to secure a tax deduction, the cost basis for determining loss upon sale or worthlessness is the fair market value at the time of acquisition, not the inflated purchase price.

Summary

Mountain Wholesale Co. was formed by stockholders of Appalachia Grocery Co., which was liquidating. Mountain Wholesale acquired a warehouse and uncollectible accounts from Appalachia at prices far exceeding their fair market value. The Tax Court held that Mountain Wholesale's basis for calculating losses on the sale of the warehouse and the worthless accounts was the fair market value of the assets when acquired, not the stated purchase price, because the primary purpose of the acquisition was to generate tax deductions that Appalachia could not use.

Facts

Appalachia Grocery Co. (

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