20 T.C. 670 (1953)

The intent at the time of purchase determines whether a building has a depreciable basis for tax purposes, and the functional similarity of replacement property is crucial in determining eligibility for non-recognition of gain after an involuntary conversion.

Summary

Lynchburg National Bank purchased property with the intent to demolish the existing building for an expansion. War restrictions delayed demolition, and the bank rented the building. After a fire, insurance proceeds were used to construct the planned bank addition. The Tax Court held that the bank couldn't avoid recognizing gain on the insurance proceeds under Section 112(f) because the replacement property (bank addition) wasn't functionally similar to the destroyed rental property. The court also denied depreciation deductions on the original building because the bank's initial intent to demolish it meant it had no depreciable basis.

Facts

In 1940, Lynchburg National Bank & Trust Co. purchased property adjacent to its bank building with the intention of demolishing the existing three-story building and constructing an addition to expand its banking facilities.
Due to wartime building restrictions, the bank couldn't immediately demolish the building. Instead, it rented the building to a shoe store and a restaurant.
In 1946, a fire destroyed a portion of the building. The bank received $9,902.84 in insurance proceeds and established a

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