20 T.C. 1075 (1953)

When properties are sold as a unit, the cost basis of each property can be determined separately to calculate capital gains or losses if the properties were acquired separately and can be readily sold separately.

Summary

In *Davock v. Commissioner*, the U.S. Tax Court addressed whether a taxpayer could claim a short-term capital loss on the sale of a small parcel of land (Parcel A) that was sold alongside a larger parcel (Parcel B). The taxpayer had purchased Parcel A with the knowledge that it would be sold at a loss, but it was necessary to acquire Parcel A to facilitate the profitable sale of Parcel B. The court held that the taxpayer could allocate a portion of the sale price to Parcel A, based on its fair market value, and recognize a short-term capital loss, because the properties, although sold together, were treated as separate units for purposes of determining gain or loss.

Facts

Harlow N. Davock purchased 915 acres of land (Parcel B) in 1938. Parcel B did not include the entire shoreline of nearby lakes. In order to make a profitable sale of Parcel B, Davock needed to acquire 20 acres (Parcel A) with shoreline rights. Davock acquired Parcel A for $9,115.56. Davock was forced to sell Parcel A at a loss as a result of needing to sell both plots in order to sell the larger plot. The state of Michigan agreed to buy Parcels A and B for a total price of $70,050. Davock reported a cost basis of $9,115.56 for Parcel A and a sale price of $1,500, claiming a short-term capital loss of $7,615.56. The Commissioner of Internal Revenue disallowed the loss, arguing that the properties were sold as a unit, and Davock suffered no loss on the sale of Parcel A.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Davock’s income tax for 1945, disallowing the claimed short-term capital loss. Davock petitioned the U.S. Tax Court to review the Commissioner’s decision.

Issue(s)

1. Whether the taxpayer could treat the purchase and sale of Parcel A as a separate transaction, even though it was sold with Parcel B for a single purchase price.

2. Whether the taxpayer was entitled to claim a short-term capital loss on the sale of Parcel A.

Holding

1. Yes, because the court found that the properties could be treated as separate

units for determining the capital gain or loss.

2. Yes, because the court found that the taxpayer was entitled to a short-term capital loss.

Court's Reasoning

The court relied on the general principle that, when determining gain or loss, each purchase is a separate unit. The court cited *Lakeside Irrigation Co. v. Commissioner*, which stated, "in general each purchase is a separate unit as to which cost and sale price are to be compared." The court distinguished this from situations where separately purchased items are combined into a single unit, such as building materials used to construct a house. The court determined that Davock's situation was not a situation where separate properties were

