***Estate of Sanford v. Commissioner*, 308 F.2d 73 (2d Cir. 1962)**

When the basis of gifted stock cannot be determined from available records, the court may allow a reasonable basis determination by the Commissioner, even if it differs from the donor's reported basis, and the taxpayer must prove that the Commissioner's determination is incorrect.

Summary

The Second Circuit Court of Appeals addressed the determination of the basis for gifted stock when the donor's original cost was unknown. The court affirmed the Tax Court's decision, holding that when determining the basis of gifted stock, if the original cost cannot be ascertained, the Commissioner may make a reasonable determination. The burden is on the taxpayer to prove that the Commissioner's determination is incorrect. The court considered whether the transaction was a sale, gift, or contribution to capital, concluding that even if the transaction was a gift, the taxpayer could not establish a basis that was more accurate than the Commissioner's. The court rejected the taxpayer's reliance on the donor's prior tax filings, as there was insufficient evidence to support the taxpayer's claim.

Facts

The taxpayer, the estate of Sanford, received shares of Chesnee Mills stock. The taxpayer claimed a basis of $190 per share, which was the same amount used by the donor in the donor's 1929 tax return. The Commissioner determined a deficiency, using a lower basis. The donor's records were unavailable to determine the original cost of some of the shares, and the Commissioner's determination was based on the best available evidence, including some known acquisition costs of the donor. The taxpayer argued that the Commissioner should have accepted the basis reported on the donor's tax return.

Procedural History

The Commissioner determined a deficiency based on a lower basis for the gifted stock. The Tax Court upheld the Commissioner's determination. The Estate appealed to the Second Circuit Court of Appeals.

Issue(s)

Whether the Commissioner's determination of the basis for gifted stock was proper when the donor's original cost was unknown, and if the Commissioner was justified in using the best available information to determine the basis.

Holding

Yes, because the taxpayer failed to demonstrate that the Commissioner's determination was incorrect, the court affirmed the Tax Court's decision.

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Court’s Reasoning

The court considered three possible characterizations of the acquisition of the Chesnee Mills stock: a sale, a gift, or a contribution to capital. The court determined that regardless of which characterization applied, the taxpayer’s challenge to the Commissioner’s determination would fail. If the transaction was a gift, the basis would be the same as it would have been in the hands of the donor, or the last preceding owner. As the records for the donor were incomplete, the court deferred to the Commissioner’s determination. The court found the donor’s 1929 tax return insufficient evidence of the proper basis, noting that it was a self-serving declaration without supporting evidence. The court noted, “Petitioner, in addition, took the position at one stage of these proceedings that the $190 basis was incorrect as being too low.” In the court’s view, the Estate had not established a more accurate basis than that determined by the Commissioner.

Practical Implications

This case highlights the importance of maintaining complete and accurate records, especially when dealing with gifts of property. The Estate of Sanford case underscores that the taxpayer bears the burden of proving the correct basis, and the court will defer to the Commissioner’s reasonable determination if the taxpayer does not provide sufficient evidence. Tax practitioners should advise clients to gather and preserve all relevant documentation. This case is a warning against relying on incomplete or self-serving declarations when determining basis. If the records are insufficient, the tax liability will be based on the best available information.

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