28 T.C. 1308 (1957)

A corporation's basis in acquired property is generally its cost, absent a showing that the acquisition involved a gift or contribution to capital, and unused excess profits credits are generally not transferable to a successor corporation in a tax-free reorganization.

Summary

The case concerns two key issues in tax law. First, it addresses the determination of the basis of property for depreciation purposes and computation of invested capital credit. The petitioner, Dumont-Airplane & Marine Instruments, Inc., sought to increase the depreciable basis of its Clearfield Plant buildings based on an appraisal, arguing that the original acquisition involved a gift or contribution to capital. Second, it examines the availability of an unused excess profits credit from a dissolved predecessor corporation to the surviving corporation in a tax-free reorganization. The Tax Court ruled in favor of the Commissioner on both issues, holding that Dumont's depreciable basis was limited to its actual cost and that it could not utilize the predecessor's excess profits credit.

Facts

In 1926, American Mond acquired the Clearfield Plant. In 1936, American Mond sold the plant to the Clearfield Corporation for $15,000. In 1939, Clearfield Corporation leased the plant to Dumont for five years with an option to purchase it for $7,500 plus the cost of improvements. In 1942, Dumont exercised its option and purchased the plant for $43,000. Dumont allocated the purchase price, claiming depreciation. Later, Dumont revalued the buildings, seeking to increase its depreciable basis. In 1953, Dumont acquired substantially all the assets of Dumont Electric Corporation in a tax-free reorganization, with Dumont Electric then dissolving. Dumont Electric had unused excess profits credits. Dumont sought to use the depreciable basis it set and to carry back Dumont Electric's unused excess profits credits to reduce its own tax liability. The Commissioner disagreed.

Procedural History

The Commissioner determined deficiencies in Dumont's income and excess profits taxes for 1951, 1952, and 1953. Dumont contested the Commissioner's determinations in the U.S. Tax Court. The Tax Court sided with the Commissioner in a decision issued on September 30, 1957.

Issue(s)

1. Whether the Commissioner properly determined the petitioner's basis in the Clearfield Plant buildings for the purpose of depreciation and for computation of the petitioner's excess profits credit based on invested capital.

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2. Whether it was proper for the petitioner, in computing its unused excess profits credit adjustment for 1952, to use the unused excess profits credit of Dumont Electric, which it acquired in a tax-free reorganization in 1953, and which was immediately thereafter liquidated and dissolved.

Holding

1. No, because the petitioner failed to prove that American Mond or Clearfield Corporation made a gift or contribution to capital to Dumont; therefore, Dumont's basis was its cost of the plant.

2. No, because Dumont was not the

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