30 T.C. 539 (1958)

The Tax Court determined that a prior settlement regarding obsolescence deductions due to prohibition must be considered when calculating the adjusted basis of property for later tax years and that a cabin cruiser used exclusively for business purposes allows for the deduction of associated expenses.

Summary

The Cleveland-Sandusky Brewing Corp. challenged the Commissioner's determination of tax deficiencies for 1949 and 1950. The issues involved the adjusted basis of property for depreciation and sale due to obsolescence caused by prohibition, the proper basis for a land sale, and the deductibility of expenses for a cabin cruiser. The court addressed the calculation of allowable obsolescence for 1918, based on a 1933 settlement, impacting later depreciation deductions and gain from the sale of the Schlather Brewery. It also addressed the proper method for determining the basis of land sales and the deductibility of expenses related to a cabin cruiser. The court ruled in favor of the Commissioner on the land sale issue due to insufficient evidence of proper allocation and in favor of the taxpayer regarding the cabin cruiser expenses as exclusively for business purposes. The decision underscores the importance of following established methods for calculating tax deductions and properly substantiating business expenses.

Facts

The Cleveland & Sandusky Brewing Company (taxpayer), an Ohio corporation, purchased multiple breweries in 1898 and subsequent years. In 1918, the Eighteenth Amendment (Prohibition) was passed, significantly impacting the brewing business. The taxpayer claimed obsolescence deductions in 1918 and 1919 due to the prohibition legislation. A settlement was reached in 1933, determining total obsolescence for the 1918-1919 period. The Commissioner adjusted the basis of the Schlather Brewery buildings based on that settlement, which affected the calculation of depreciation and gain from a 1950 sale of these buildings. In 1898, the taxpayer also acquired land consisting of four parcels, with portions sold off in 1922, 1933 and 1937. The taxpayer sold a portion of the remaining land in 1950 and claimed a loss. The taxpayer owned a cabin cruiser in 1949 and 1950, which was used for business purposes, and claimed related expenses as deductions.

Procedural History

The Commissioner determined deficiencies in the taxpayer's income tax for the fiscal years ending March 31, 1949, and March 31, 1950. The taxpayer challenged these deficiencies in the United States Tax Court. The Tax Court considered three issues: the adjusted basis of certain property, the correct basis for a 1950 land sale, and the deductibility of expenses related to a cabin cruiser.

Issue(s)

1. Whether the basis of certain property held by the petitioner in these years should be adjusted, for the purposes of computing depreciation and gain or loss from the sale of such property, for obsolescence in 1918 due to national prohibition legislation?

2. Whether the petitioner is entitled to a higher basis with respect to a 1950 sale of land than the basis allowed by the respondent?

3. Whether a cabin cruiser owned by the petitioner was used exclusively for business purposes during the fiscal years 1949 and 1950?

Holding

1. Yes, because the court found that the settlement reached in 1933 regarding the total obsolescence amount for 1918-1919 period and its allocation between the two years provided the proper basis for adjusting the basis of the property in later years.

2. No, because the taxpayer failed to establish a higher basis than that allowed by the respondent due to insufficient evidence to allocate the original cost of land to the parcels properly.

3. Yes, because the court found that the cabin cruiser was used exclusively for business purposes.

Court’s Reasoning

Regarding the obsolescence issue, the court emphasized that the amount of obsolescence

