***Masser v. Commissioner*, 30 T.C. 754 (1958)**

When two adjacent properties are used together as an economic unit, the involuntary conversion of one may render the subsequent sale of the other an involuntary conversion under § 112(f) of the Internal Revenue Code of 1939, allowing for non-recognition of gain if the proceeds are reinvested in similar property.

Summary

The case concerns the tax treatment of proceeds from the sale of a terminal building and adjacent parking lots used in a trucking business. After the parking lots were threatened with condemnation and subsequently sold, the taxpayer sold the terminal building as it was impractical to operate without the parking. The court addressed whether the sale of the terminal building was also an involuntary conversion, qualifying for non-recognition of gain under Section 112(f) of the Internal Revenue Code of 1939. The court found that the two properties constituted an economic unit, and the involuntary conversion of the parking lots made the sale of the terminal building also an involuntary conversion because, in essence, the taking of the parking land made the terminal building economically useless. The gain from both sales was thus non-taxable.

Facts

Harry G. Masser, operating Masser Motor Express, owned a terminal building and eight adjacent parking lots in Union City, New Jersey. The lots were essential for the terminal's trucking operations. The Housing Authority threatened to condemn the parking lots for low-cost housing. Following legal advice, Masser sold the parking lots to the Housing Authority. Due to the lack of alternative parking options, Masser sold the terminal building shortly after. Masser purchased a new terminal in Weehawken, New Jersey, to replace the Union City facility. Masser elected to treat the gain from both sales as non-recognized under Section 112(f) of the 1939 Internal Revenue Code.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Masser's income tax, disallowing the non-recognition of gain from the sale of the terminal building. Masser petitioned the Tax Court to challenge the deficiency.

Issue(s)

1. Whether the sale of the parking lots constituted an involuntary conversion under § 112(f) of the Internal Revenue Code of 1939.

2. Whether the sale of the terminal building also constituted an involuntary conversion under § 112(f) because it occurred because of the sale of the parking

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lots.

Holding

1. Yes, the sale of the parking lots constituted an involuntary conversion because of the threat of condemnation.

2. Yes, the sale of the terminal building constituted an involuntary conversion because the two properties operated as an economic unit, and the sale of the parking lots rendered the continued operation of the terminal building impractical, and it was sold to reinvest in a similar property.

Court’s Reasoning

The court focused on the practical application of tax law, as reflected in the Supreme Court’s pronouncements that taxation is eminently practical. The court examined the relationship between the parking lots and the terminal building. The two properties were acquired simultaneously and used together as an economic unit for the trucking business. Because the threat of condemnation forced the sale of the parking lots and made continued use of the terminal building impractical and uneconomical, the court determined that the sale of the terminal building, which was also due to the parking lot sale, should also be considered an involuntary conversion, triggering the non-recognition of gain under § 112(f). The court noted that Masser acted in good faith and exercised prudent business judgment in selling the terminal building and reinvesting the proceeds in a similar property.

Practical Implications

This case emphasizes the importance of considering the economic substance of a transaction when applying tax law. It expands the definition of

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