32 T.C. 177 (1959)

The basis of stock purchased in a corporation does not include corporate debt to the sellers outstanding at the time of the purchase, even when the purchaser takes subject to that debt.

Summary

Cogswell Bentley purchased all the stock of Rogerson Cold Storage. In calculating the capital gain from a later sale of that stock, Bentley sought to include the corporation's mortgage debt to the original stockholders as part of his basis in the stock. The Tax Court ruled that because Bentley purchased the stock, not the underlying assets, and the corporation remained responsible for the debt, the mortgage obligations did not increase his basis. Therefore, his basis was limited to the cash and note he personally paid for the stock.

Facts

Bentley offered to purchase the real property and assets of Rogerson Cold Storage from its stockholders for $72,000. The offer included a $50,000 mortgage on the property. Subsequently, Bentley learned about existing mortgages to the stockholders. On March 1, 1930, the stockholders transferred all 400 shares of Rogerson Cold Storage to Bentley. The sales agreement specifically stated that the property would remain subject to the existing mortgages to the former stockholders ($41,560 and $8,440). Bentley paid $15,000 cash and a $7,000 note for the stock. Later, Bentley exchanged the stock for bonds and debentures, claiming a basis of $72,000 based on the original offer. The Commissioner of Internal Revenue disallowed the inclusion of the $50,000 mortgage in the basis calculation, leading to a tax deficiency.

Procedural History

The Commissioner determined a tax deficiency, disallowing Bentley's claimed basis of $72,000 and instead allowing a basis of $22,000, reflecting Bentley's personal payments. Bentley petitioned the United States Tax Court to challenge the Commissioner's determination.

Issue(s)

Whether the taxpayer's cost basis for the shares of Rogerson Cold Storage stock should include the amount of existing mortgage obligations owed by the corporation to the previous shareholders, when the taxpayer did not personally assume the obligations but took the shares subject to the debt.

Holding

No, because the taxpayer's basis in the stock did not include the corporation's

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mortgage obligations to the former stockholders since the taxpayer did not assume the obligation and the debt remained a corporate liability.

Court’s Reasoning

The court focused on the definition of

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