***Timanus v. Commissioner*, 32 T.C. 649 (1959)**

The Tax Court determined the proper method for calculating depreciation deductions based on the adjusted basis of properties acquired through inheritance, and defined "selling price" for the purpose of installment sales under I.R.C. § 44(b).

Summary

The Tax Court addressed two primary issues concerning federal income tax liabilities. First, it addressed how to calculate depreciation on inherited properties when the properties were acquired at different times. The court determined that for properties held as joint tenants, the basis for depreciation was the fair market value at the time of the first death. For properties inherited through a will, the basis was the fair market value at the time of the second death. Second, the court considered whether the taxpayers were eligible to report a sale on the installment basis, focusing on the determination of the "selling price" and the "initial payments." The court found that the selling price, for purposes of installment sales, was the amount the buyers agreed to pay the sellers, even if other parties also had interests in the property. The court affirmed the Commissioner's disallowance of certain deductions and the determination that installment sale treatment was not applicable, in part because initial payments exceeded the statutory threshold.

Facts

The case involved issues with property depreciation and an installment sale of property. The taxpayers owned three properties in Baltimore, two as joint tenants with a right of survivorship and one through a will, and claimed depreciation deductions. The Commissioner challenged the basis used for depreciation. Additionally, the taxpayers sold an interest in the Inlet Beach property on the installment basis and reported a capital gain. The Commissioner determined that the initial payments received in the year of sale exceeded 30% of the selling price, thus disallowing the installment sale method.

Procedural History

The taxpayers petitioned the Tax Court to dispute the Commissioner's determination. The Tax Court heard the case and issued a decision regarding the correct adjusted basis for calculating depreciation and whether the taxpayers were eligible for installment sale treatment of the Inlet Beach property sale.

Issue(s)

1. Whether the taxpayers correctly calculated the basis of the properties for purposes of depreciation.

2. Whether the taxpayers were entitled to report the sale of the Inlet Beach property on the installment basis, considering the definition of "selling price" and "initial

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payments" under I.R.C. § 44(b).

Holding

1. No, because the basis for the properties held as joint tenants was determined at the time of the father's death, while the basis for the property inherited through the will was determined at the time of the mother's death. The taxpayers could not assign a single basis to all three properties.

2. No, because the "selling price" was correctly determined as the total amount the purchasers agreed to pay the taxpayers for their interest, regardless of the allocation of payments to other parties. Furthermore, initial payments exceeded 30% of the selling price.

Court's Reasoning

The court first determined that when the taxpayers' father died, they received two of the properties as joint tenants. When the mother, the other joint tenant, died, the properties did not acquire a new basis. Therefore, depreciation of those properties should be calculated from the father's death. For the third property, inherited through the mother's will, the basis should be calculated from the time of her death. The court referenced IRC § 113(a)(5). The court noted that the taxpayers' failure to provide competent proof of each property's fair market value meant they could not establish their basis for each. The Court used other evidence to determine that the values were not the same.

Regarding the installment sale, the court determined the selling price based on the amount the purchasers agreed to pay for the taxpayers' interest in the Inlet Beach property. "Petitioners are obliged to use that amount as their selling price for the purposes of section 44(b)." The court found the selling price to be $560,000, and the initial payments exceeded 30% of this price, thus denying installment sale treatment. The court distinguished this case from a prior case, noting that, unlike in the prior case, here, there was a contract of sale that specifically allocated the payments to the respective owners. Furthermore, the court stated that the initial payment was 31% of the selling price.

Practical Implications

This case emphasizes the importance of accurately determining the basis of property for depreciation and gain or loss calculations, especially in cases of inheritance. When properties are inherited at different times, their bases may differ. Legal professionals and taxpayers must understand how to calculate the basis for depreciation and other tax purposes, especially when dealing with inherited properties. The case also demonstrates that taxpayers must provide sufficient evidence to substantiate their calculations. When calculating the "selling price" for installment sale purposes, it is critical to review the purchase contract to determine

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the actual consideration paid for the taxpayer's interest. Taxpayers, and the attorneys advising them, must scrutinize the terms of sale agreements to properly determine the selling price and payments received to ensure compliance with the installment sale rules.

This case shows how the legal form of a transaction can be crucial in determining its tax consequences. The court's decision highlights the importance of proper documentation and record-keeping to support tax positions. Specifically, a well-drafted contract can avoid or minimize disputes with the IRS.

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