Howard v. Commissioner, 28 T.C. 1297 (1957)

When property is transferred in a taxable transaction, the basis of the property in the hands of the transferee is determined by the fair market value of the consideration paid, potentially increasing the basis in the hands of the prior owner, as per the Internal Revenue Code.

Summary

The case involves a dispute over the basis of stock received by the taxpayer (Howard) through the liquidation of a trust. The central issue revolves around whether a 1930 property settlement between Fannie May and her husband was a taxable transaction. The court held that it was, entitling Howard to use the stepped-up basis reflecting gain from the sale to determine the tax basis of the stock. The court found that the settlement was a bargained-for exchange, not a mere division of property. Additionally, the court addressed the deductibility of legal fees related to a racing investigation and disallowed a deduction for “stakes to jockeys” due to insufficient evidence.

Facts

Charles S. Howard, the petitioner, received 1,324 shares of stock upon the liquidation of a trust. The trust had acquired a beneficial interest in the stock from Fannie May through a 1930 property settlement agreement. The key question was the basis of the stock for tax purposes in Howard’s hands. The property settlement involved a transfer of property rights for a consideration and the agreement was not a partition or division of community property. Also, the petitioner spent money for legal fees in relation to an investigation by the Racing Board and claimed a deduction. Finally, the petitioner made a bookkeeping entry as payments to jockeys and claimed a deduction on this basis.

Procedural History

The case was heard before the U.S. Tax Court. The Commissioner contested the petitioner’s determination of the stock basis, the deductibility of legal fees, and the

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