Tribune Publishing Co. v. Commissioner, 52 T. C. 717 (1969)

A taxpayer's method of deducting television film license costs must reasonably match the cost with the film's usage over the license period.

Summary

Tribune Publishing Co. , operating an independent television station, deducted film license costs based on its payment schedule, arguing it matched the films' usage. The Commissioner disallowed these deductions, asserting a straight-line method over the license period should be used. The Tax Court rejected Tribune's method, finding it did not properly reflect the films' usage, particularly since payments often did not align with the full license term and the station used films for 'fill' programming. The court upheld the Commissioner's adjustments, emphasizing that a reasonable method must accurately reflect the films' diminishing value and actual usage over the license period.

Facts

Tribune Publishing Co. operated KTNT-TV, which lost its CBS network affiliation in 1958. To remain competitive as an independent station, KTNT-TV heavily invested in syndicated and feature films. Tribune deducted the full amount of its film license payments in the years they were made, claiming this method matched the films' usage. The IRS, however, adjusted these deductions, asserting they should be spread evenly over the entire license period, as per Rev. Rul. 62-20.

Procedural History

The Commissioner determined deficiencies in Tribune's federal income taxes for 1955, 1956, and 1957 due to adjustments made to operating losses from 1958 and 1959, which were carried back. The Tax Court considered the case, focusing on whether Tribune's method of deducting film costs was proper.

Issue(s)

1. Whether Tribune Publishing Co. 's method of deducting television film license costs, based on its payment schedule, properly matched the cost with the film's usage?

Holding

1. No, because Tribune's method did not reasonably reflect the usage of the films over the entire license period, particularly as the films retained value for 'fill' programming beyond the payment period.

Court's Reasoning

The court rejected Tribune’s method, finding it did not properly match costs with the films’ usage. The court noted that Tribune’s payment schedules often ended before the license period, yet the films retained value for ‘fill’ programming. The court also criticized the increasing payment schedules under some contracts, which did not align with the diminishing value of reruns. Tribune’s use of a composite or group procedure for write-offs was deemed inappropriate due to the diverse quality of films within packages. The court emphasized that a method must reflect the films’ actual usage and diminishing value over the license period, as per *KIRO, Inc.* , where a sliding-scale method was approved. Tribune failed to provide an alternative method supported by evidence, leading the court to sustain the Commissioner’s adjustments.

Practical Implications

This decision clarifies that television stations must use a method that reasonably matches film license costs with the films’ usage over the entire license period. Practitioners should advise clients to allocate costs based on actual usage, considering the diminishing value of reruns and the films’ role in ‘fill’ programming. The ruling reinforces the need for a method that accurately reflects the economic reality of film usage, potentially affecting tax planning for media companies. Subsequent cases, such as *KIRO, Inc.* , have distinguished this ruling by approving alternative methods that better match costs with usage.