Triangle Publications, Inc. v. Commissioner, 54 T. C. 138 (1970)

A taxpayer can amortize the cost of a franchise with a limited useful life acquired through a subsidiary's liquidation and deduct expenditures for maintaining circulation under specific conditions.

Summary

Triangle Publications, Inc. sought to deduct amortization for a franchise acquired from its subsidiary, S. R. B. T. V. , and to deduct payments made to acquire another franchisee's stock, T. N. I. , to maintain circulation. The Tax Court held that Triangle could amortize the unexpired portion of the S. R. B. T. V. franchise and deduct the payments to T. N. I. under Section 173 as circulation expenditures, except for the value of the existing franchise. Additionally, Triangle was allowed to use a reasonable estimated useful life for investment credit calculations, separate from guideline lives used for depreciation.

Facts

Triangle Publications, Inc. owned TV Guide and operated through various subsidiaries. In 1956, its subsidiary S. R. B. T. V. purchased a franchise from an unrelated party, Tele Views, with an agreement to extend the franchise for five years. In 1959, Triangle liquidated S. R. B. T. V. and took over its assets, including the franchise. In 1961, Triangle purchased the stock of another franchisee, T. N. I. , to terminate its franchise and ensure an orderly transition of TV Guide distribution in the Pittsburgh area. Triangle also purchased radio and television equipment in 1962 and used guideline lives for depreciation but claimed a longer life for investment credit purposes.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Triangle's income tax for 1960, 1961, and 1962, disallowing deductions for the amortization of the S. R. B. T. V. and T. N. I. franchises and adjusting the investment credit calculation. Triangle petitioned the U. S. Tax Court, which heard the case and issued its decision on February 5, 1970.

Issue(s)

1. Whether Triangle is entitled to deduct amortization for the unexpired portion of the franchise it acquired from S. R. B. T. V. upon liquidation.
2. Whether Triangle is entitled to deduct the amount paid for T. N. I. 's stock in excess of its asset value as a business expense.
3. Whether Triangle's election to use guideline lives for depreciation requires it to use the same lives for computing investment credit for the 1962 equipment.

Holding

1. Yes, because the franchise had a determinable useful life of five years to S. R. B. T. V. , and upon liquidation, Triangle acquired an asset with a remaining useful life.
2. Yes, because the excess payment over T. N. I. 's asset value was for maintaining circulation and not for acquiring the business of another publisher, thus deductible under Section 173, except for the value of the existing franchise.
3. No, because the regulations allow the use of either guideline class lives or reasonable estimated useful lives for computing investment credit, and Triangle's estimate was reasonable.

Court's Reasoning

The court reasoned that the S. R. B. T. V. franchise had a definite five-year life due to an agreement between Triangle and S. R. B. T. V. before the franchise's acquisition. Upon liquidation, the franchise did not cease to exist but became an asset with a remaining life to Triangle. For T. N. I. , the court found that the payment was primarily for maintaining circulation, not acquiring another publisher's business, thus deductible under Section 173, except for the value of the existing franchise. The court also interpreted the regulations to allow flexibility in choosing useful lives for investment credit, separate from depreciation calculations, and upheld Triangle's use of a reasonable estimated life for the 1962 equipment.

Practical Implications

This decision clarifies that a franchise with a limited life acquired through a subsidiary's liquidation can be amortized by the parent company. It also establishes that payments to maintain circulation, not to acquire another publisher's business, may be deductible under Section 173. For tax practitioners, it highlights the importance of distinguishing between capital expenditures and deductible circulation expenses. Additionally, the ruling permits taxpayers to use reasonable estimated useful lives for investment credit calculations, even if they use guideline lives for depreciation, providing flexibility in tax planning. Subsequent cases have cited this decision in addressing similar issues regarding the deductibility of circulation expenditures and the use of estimated useful lives for tax purposes.