***Credit Bureau of Erie, Inc. v. Commissioner, 54 T. C. 726 (1970)***

Intangible assets like collection accounts purchased as part of a business may constitute indivisible goodwill not subject to depreciation if they have an indefinite useful life.

**Summary**

Credit Bureau of Erie, Inc. purchased a collection agency for $23,000, including approximately 100,000 collection accounts, and later claimed depreciation on these accounts. The IRS disallowed the depreciation, arguing the accounts were an indivisible mass asset akin to goodwill with an indefinite life. The Tax Court agreed, holding that the collection accounts were not depreciable because they constituted goodwill, not separate assets with a determinable life. The court emphasized that the primary purpose of the purchase was to acquire the established customer structure, which inherently had an indefinite life and could not be depreciated.

**Facts**

Credit Bureau of Erie, Inc. (petitioner) operated as a credit association and collection agency. In 1960, it purchased a collection business from Thomas Warren Smith for $23,000, including approximately 100,000 collection accounts. Prior to the purchase, Smith operated the collection business under the name "Collection Department of the Credit Bureau of Erie, Inc. " and had a working arrangement with the petitioner. After the purchase, the petitioner continued operating the collection business without significant changes. The petitioner claimed depreciation deductions of $2,000 per year on the collection accounts for the taxable years ending February 28, 1965, and February 28, 1966. The IRS disallowed these deductions, asserting that the accounts constituted an indivisible asset with an indefinite life.

**Procedural History**

The IRS issued a notice of deficiency on February 8, 1968, disallowing the petitioner's depreciation deductions. The petitioner filed a petition with the U. S. Tax Court. The court heard arguments on whether the burden of proof shifted to the IRS, whether a second examination of the petitioner's books violated IRS regulations, and whether the petitioner was entitled to depreciation deductions for the collection accounts.

**Issue(s)**

1. Whether the burden of proof shifted to the respondent due to language in the notice of deficiency?
2. Whether the respondent conducted a second examination of the petitioner's books and records in violation of section 7605(b), I. R. C. 1954?
3. Whether the petitioner is entitled to a depreciation deduction under section 167,

I. R. C. 1954, for the collection accounts purchased from Smith?

## Holding

1. No, because no new matter was pleaded in the respondent's answer, thus the burden of proof did not shift.
2. No, because there was no evidence of a second examination, and if there was, it was likely waived by the petitioner.
3. No, because the collection accounts constituted an indivisible mass asset in the nature of goodwill with an indefinite useful life, and thus not subject to depreciation.

## Court's Reasoning

The court applied Rule 32 of the Tax Court Rules of Practice, which shifts the burden of proof to the respondent only for new matter pleaded in their answer. No new matter was introduced by the respondent, so the burden remained with the petitioner. Regarding the second examination issue, the court found no evidence of such an examination and noted that even if it occurred, the petitioner likely waived any objection. On the depreciation issue, the court relied on section 167(a)(1) and section 1. 167(a)-3 of the Income Tax Regulations, which allow depreciation for intangible assets with a limited, ascertainable useful life. The court concluded that the collection accounts were an indivisible asset akin to goodwill, as they represented the customer structure and potential for future business, which inherently had an indefinite life. The petitioner's argument for a 7. 5-year life was deemed arbitrary and unsupported. The court also drew analogies to insurance expirations and unfilled orders, which are considered goodwill and not subject to depreciation.

## Practical Implications

This decision clarifies that when purchasing a business, intangible assets like collection accounts may be treated as indivisible goodwill if they represent the established customer structure with an indefinite life. Businesses should carefully consider how to allocate purchase prices and whether to claim depreciation on such assets. The ruling impacts how tax professionals advise clients on structuring acquisitions and claiming deductions for intangible assets. It also serves as precedent for distinguishing between depreciable assets and goodwill in tax cases involving similar business acquisitions. Subsequent cases involving intangible assets in business sales should consider this ruling when assessing depreciation claims.