## *First Pennsylvania Banking & Trust Co. v. Commissioner, 56 T. C. 677 (1971)*

Intangible assets with ascertainable useful lives can be amortized, while those with indefinite lives, like goodwill, cannot.

### Summary

First Pennsylvania Banking & Trust Co. acquired a mortgage servicing business from W. A. Clarke Mortgage Co. for $2 million. The key issue was whether the entire purchase price could be amortized over the estimated useful lives of the servicing rights for existing loans. The Tax Court held that only the portion of the purchase price allocated to the rights to service existing loans and use associated escrow funds could be amortized, as these had definite useful lives. The remaining value, attributed to goodwill and the opportunity to service future loans, was not amortizable due to its indefinite nature. The court allocated $1. 7 million to the amortizable assets and $300,000 to non-amortizable assets.

### Facts

W. A. Clarke Mortgage Co. was servicing mortgage loans for various lenders, primarily Metropolitan Life Insurance Co. , when it decided to liquidate. First Pennsylvania Banking & Trust Co. (Penn) acquired Clarke’s rights to service existing loans, the opportunity to service future loans, and the use of escrow funds associated with these loans for $2 million. The acquisition included Clarke’s business operations, including its personnel, records, and equipment. Penn anticipated setting up its own mortgage servicing department using Clarke’s resources.

### Procedural History

Penn claimed amortization deductions for the entire $2 million purchase price over the estimated service lives of the loans. The Commissioner disallowed these deductions, asserting that the purchase included non-amortizable assets like goodwill. The case proceeded to the United States Tax Court, which ruled that only the portion of the purchase price related to servicing existing loans and using their escrow funds could be amortized.

### Issue(s)

1. Whether the entire $2 million purchase price could be amortized over the estimated service lives of the loans.
2. Whether the rights to service existing loans and use associated escrow funds can be separately valued and amortized.
3. Whether the value attributable to goodwill and future servicing opportunities is non-amortizable.

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## Holding

1. No, because the purchase price included non-amortizable assets with indefinite life spans.
2. Yes, because these rights have ascertainable useful lives based on the remaining terms of the loans.
3. Yes, because goodwill and future servicing opportunities have indefinite life spans and cannot be amortized.

## Court’s Reasoning

The court applied Section 1. 167(a)-3 of the Income Tax Regulations, which allows amortization of intangible assets with limited, ascertainable useful lives. The rights to service existing loans and use their escrow funds were valued based on the remaining life spans of the loans, determined to be 8 years for residential, 5. 5 years for commercial, and 10 years for Seamen loans. These were considered amortizable. However, the court found that Penn also acquired goodwill and the opportunity to service future loans, which have indefinite life spans and thus are non-amortizable. The court allocated $1. 7 million to the amortizable assets and $300,000 to the non-amortizable assets, based on the evidence presented and the economic realities of the transaction. The court rejected both parties’ expert valuations, finding them at the extremes, and instead made its own judgment on the allocation.

## Practical Implications

This decision clarifies that in business acquisitions, intangible assets must be carefully evaluated for their useful life to determine amortization eligibility. It emphasizes the need for businesses to distinguish between assets with definite and indefinite lives when calculating tax deductions. The ruling impacts how companies value and account for acquisitions, particularly in the mortgage servicing industry, where similar transactions occur. It also influences future tax planning and financial reporting, as businesses must allocate purchase prices accurately between amortizable and non-amortizable assets. Subsequent cases have followed this principle in distinguishing between the treatment of different types of intangible assets.

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