Pittsburgh Terminal Corp. v. Commissioner, 60 T. C. 80 (1973)

The basis of property acquired by a corporation with its own securities is the fair market value of the property received, not the value of the securities given.

Summary

Pittsburgh Terminal Corp. claimed a capital loss from the sale of coal lands, asserting a basis derived from a 1902 purchase by its predecessor, Terminal Coal No. I, using stock and bonds. The Tax Court held that the basis could not exceed the fair market value of the coal lands at the time of acquisition, which was less than the claimed basis after accounting for depletion deductions. The court rejected the valuation based on the securities issued, emphasizing the speculative nature of the securities and the more reliable evidence of the coal lands' value. The decision underscores the importance of using the fair market value of property received in determining basis when a corporation uses its securities as payment.

Facts

In 1902, Terminal Coal No. I acquired 10,600 acres of undeveloped coal lands in Allegheny County, Pennsylvania, by issuing 139,990 shares of its $100 par value common stock and $4,310,000 in debentures to Charles Donnelly, Frank F. Nicola, and Frank M. Osborne. The coal lands were purchased from five individuals who had aggregated the lands and sold them to Donnelly and Nicola for $3,444,519. 32. Terminal Coal No. I merged with another company to form Terminal Coal No. II, which underwent bankruptcy reorganization in 1941, resulting in the formation of Pittsburgh Terminal Corp. In 1966, Pittsburgh Terminal Corp. sold the coal lands to South Hills Terminal Co. for $5,000, claiming a significant capital loss based on a basis derived from the 1902 transaction.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Pittsburgh Terminal Corp. 's 1966 income tax, disallowing the claimed capital loss. Pittsburgh Terminal Corp. petitioned the United States Tax Court for a redetermination of the deficiency. The court held that the corporation had no allowable capital loss from the sale of the coal lands in 1966, as the cost basis of the lands did not exceed their fair market value at the time of acquisition by Terminal Coal No. I, and depletion deductions had exceeded this basis.

Issue(s)

1. Whether the cost basis of coal lands acquired by Terminal Coal No. I in 1902 exceeded the deductions for depletion allowed and allowable from 1902 until 1966.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because the fair market value of the coal lands at the time of acquisition was less than $5 million, and depletion deductions from 1913 to 1966 exceeded this amount.

Court’s Reasoning

The Tax Court rejected the valuation of the coal lands based on the value of the securities issued by Terminal Coal No. I, noting the speculative nature of the securities and the lack of reliable evidence supporting their value. Instead, the court relied on the price paid by Donnelly and Nicola to the five individuals who had aggregated the lands, which was $3,444,519. 32, or approximately $325 per acre. The court allowed for a markup to account for the aggregation efforts but determined that the fair market value of the coal lands did not exceed $5 million in 1902. The court emphasized that the basis of property acquired with corporate securities should be the fair market value of the property received, not the value of the securities given. The court also noted that depletion deductions from 1913 to 1966 exceeded the adjusted basis of the coal lands, resulting in no unrecovered basis at the time of the 1966 sale.

Practical Implications

This decision clarifies that when a corporation acquires property using its own securities, the basis of the property is determined by its fair market value at the time of acquisition, not by the value of the securities issued. This principle is crucial for tax planning involving corporate acquisitions and disposals. The ruling also highlights the importance of accurately determining the fair market value of assets, especially in cases involving undeveloped or speculative properties. Practitioners should be cautious in claiming capital losses based on historical transactions and must account for depletion and other adjustments to basis over time. This case has been cited in subsequent rulings addressing the basis of property acquired with corporate securities and the valuation of natural resource assets.

© 2025 SCOTUSreports.com. All rights reserved.