Ternovsky v. Commissioner, 66 T. C. 695 (1976)

The black market exchange rate should be used to convert foreign currency into U. S. dollars for determining the basis of property in casualty loss deductions.

Summary

In Ternovsky v. Commissioner, the U. S. Tax Court ruled on the appropriate exchange rate to use when converting foreign currency into U. S. dollars for calculating a casualty loss deduction. Frank Ternovsky, a naturalized U. S. citizen from Hungary, claimed a deduction for the theft of his stamp collection, purchased in Hungary in 1949 for 280,000 forints. The court held that the black market rate, not the official or a proposed 'buying power' rate, should be used to convert the forints to dollars, resulting in a basis lower than Ternovsky's insurance recovery, thus disallowing the deduction.

Facts

Frank Ternovsky, a Hungarian attorney, emigrated to the U. S. in 1956. In 1949, fearing government confiscation of his cash savings, he purchased a stamp collection in Hungary for 280,000 forints. The collection was stolen from his California home in 1968, and he received $18,379 from his insurance policy. Ternovsky claimed a casualty loss deduction on his 1969 tax return, converting the forints to dollars using the official exchange rate of 11. 74 forints per dollar, which resulted in a claimed basis of $23,850. 10. The Commissioner of Internal Revenue argued for using the black market rate, which would yield a basis of between $6,666. 67 and $6,829. 27.

Procedural History

Ternovsky filed a petition with the U. S. Tax Court after the Commissioner disallowed his casualty loss deduction. The court reviewed the case and determined that the appropriate exchange rate for converting the forints to dollars was the black market rate.

Issue(s)

1. Whether the black market exchange rate should be used to convert Hungarian forints to U. S. dollars for determining the basis of Ternovsky's stamp collection?

Holding

1. Yes, because the black market rate more accurately reflects the actual purchasing power of the forints in U. S. dollars at the time of purchase, and thus provides a more accurate basis for the stamp collection.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The court rejected the official exchange rate, noting that such rates are often set by governments for economic policy reasons rather than reflecting actual purchasing power. The court also dismissed Ternovsky's proposed 'buying power' rate, which compared the prices of goods in Hungary and the U. S. , as it failed to account for factors like resource availability, production efficiency, and quality differences. The court found the black market rate to be a more reliable indicator of the real marketplace value of the forints at the time of purchase, citing previous cases like Cinelli v. Commissioner, which used the black market rate for similar reasons. The court emphasized that the black market rate better approximated the actual purchasing power equivalence of U. S. dollars in Hungary in 1949.

Practical Implications

This decision establishes that for tax purposes, the black market rate should be used to convert foreign currency into U. S. dollars when determining the basis of property for casualty loss deductions, particularly when official rates do not reflect actual market conditions. This ruling affects how taxpayers and their advisors should calculate deductions for property purchased with foreign currency, especially in countries with significant differences between official and black market exchange rates. It also impacts the valuation of assets in international tax planning and may influence future cases involving the conversion of foreign currency for tax purposes.

© 2025 SCOTUSreports.com. All rights reserved.