Buffalo Wire Works Co. v. Commissioner, 74 T. C. 925 (1980)

The entire condemnation award, including amounts measured by moving expenses, constitutes an amount realized from the involuntary conversion of property into money under Section 1033.

Summary

Buffalo Wire Works Co. received a condemnation award for its property, which included a portion measured by projected moving costs. The IRS argued this portion should be treated as reimbursement for moving expenses, taxable as ordinary income. The Tax Court, following the precedent set by the Second Circuit in E. R. Hitchcock Co. , held that the entire award, including the moving cost component, was part of the involuntary conversion proceeds under Section 1033. This ruling allowed the company to defer gain recognition by reinvesting in replacement property and to deduct moving expenses incurred during the relocation.

Facts

The city of Buffalo condemned Buffalo Wire Works Co. 's property, which included land, buildings, and fixtures. Under New York law, the value of the fixtures was determined as the lesser of the difference between their present value in place and salvage value, or the costs of disassembling, trucking, and reassembling them. The court used the latter method, valuing the fixtures at $480,744. 87. Buffalo Wire Works Co. received the total condemnation award in 1972, treated it as an involuntary conversion under Section 1033, and purchased replacement property. The company also deducted moving expenses incurred during its relocation from 1965 to 1972.

Procedural History

The IRS determined deficiencies in Buffalo Wire Works Co. 's federal income tax, arguing that the portion of the condemnation award measured by moving expenses should be treated as ordinary income. The Tax Court, following the Second Circuit's decision in E. R. Hitchcock Co. v. United States, held that the entire condemnation award was an amount realized from involuntary conversion, and decision was entered for the petitioner.

Issue(s)

1. Whether the portion of the condemnation award measured by moving expenses should be treated as reimbursement for moving expenses, taxable as ordinary income?
2. Whether moving expenses incurred during the taxable year 1972 should be disallowed because they were reimbursed during that same year?
3. Whether the tax benefit rule requires the inclusion in income of amounts deducted as moving expenses in prior years because such amounts were recovered

in 1972?

Holding

1. No, because the portion of the condemnation award measured by moving expenses constitutes an amount realized from the involuntary conversion of property into money under Section 1033.
2. No, because the moving expenses incurred during 1972 were not reimbursed during that year.
3. No, because there was no recovery of prior moving expenses in 1972, as the entire condemnation award was treated as involuntary conversion proceeds.

Court's Reasoning

The Tax Court applied the Golsen rule, following the Second Circuit's decision in E. R. Hitchcock Co. , which held that condemnation proceeds measured by moving expenses are part of the amount realized from involuntary conversion. The court reasoned that under New York law, moving expenses were used to determine the value of the fixtures, not as separate reimbursement. The court rejected the IRS's arguments, noting that the entire award was for the property taken, and thus, the moving expenses were deductible under Section 162. The court also found that the tax benefit rule did not apply, as there was no recovery of prior deductions. The court emphasized that the economic substance of the transaction was the conversion of the condemned property into money, which the company reinvested in replacement property.

Practical Implications

This decision clarifies that condemnation awards, including portions measured by moving expenses, are treated as involuntary conversion proceeds under Section 1033. Taxpayers can defer gain recognition by reinvesting in replacement property within the statutory period. The ruling also reaffirms that moving expenses incurred in connection with condemnation are deductible under Section 162. Practitioners should analyze similar cases by focusing on the economic substance of the condemnation award and the use of moving expenses as a measure of value, not as separate reimbursement. This decision has been followed in subsequent cases and has implications for property owners and businesses facing condemnation, as well as for tax planning in such situations.

