Roy H. Park Broadcasting, Inc. v. Commissioner, 78 T. C. 1093 (1982)

Amortization of intangible assets is only permitted if the taxpayer can prove the asset has a reasonably determinable useful life.

Summary

Roy H. Park Broadcasting, Inc. and its subsidiaries sought to amortize portions of their basis in various television and radio network affiliation contracts. The Tax Court held that the petitioners failed to establish the useful lives of these contracts with reasonable accuracy, thus disallowing the claimed deductions. However, the court allowed an election under Section 1071 for a stock sale treated as an involuntary conversion due to unique circumstances involving an FCC policy change. This case underscores the necessity for taxpayers to provide robust evidence when claiming amortization of intangible assets.

Facts

Roy H. Park Broadcasting, Inc. and its subsidiaries owned several television and radio stations with network affiliation contracts. They attempted to amortize parts of their basis in these contracts, arguing that the network revenue component was a wasting asset with a determinable useful life. The IRS disallowed these deductions. Additionally, Roy H. Park Broadcasting sold stock in Atlantic Telecasting Corp. and sought to defer gain recognition under Section 1071 after receiving an FCC certificate, which was issued following a policy change.

Procedural History

The IRS issued notices of deficiency for the taxable years in question, denying the amortization deductions and the Section 1071 election. Roy H. Park Broadcasting contested these determinations in the U. S. Tax Court. The court consolidated related cases and heard arguments on the amortization of network affiliation contracts and the validity of the Section 1071 election.

Issue(s)

1. Whether petitioners can amortize a portion of their basis in television network affiliation contracts as a wasting asset with a determinable useful life.
2. Whether petitioners can amortize their basis in radio network affiliation contracts with a determinable useful life.
3. Whether Roy H. Park Broadcasting made a timely election under Section 1071 to treat its sale of Atlantic Telecasting Corp. stock as an involuntary conversion.

Holding

1. No, because petitioners failed to establish the estimated useful lives of the television affiliation contracts with reasonable accuracy.

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2. No, because petitioners failed to establish the estimated useful lives of the radio affiliation contracts with reasonable accuracy.
3. Yes, because under the unique facts presented, the Section 1071 election by way of amended return is allowed to petitioner Greenville.

Court’s Reasoning

The court applied Section 167(a) and the regulations, which allow depreciation or amortization of intangible assets only if the taxpayer can establish a limited useful life with reasonable accuracy. The petitioners’ attempts to prove the useful lives of the network revenue components of the television contracts were deemed insufficient due to reliance on percentage trends rather than absolute dollar figures and flawed statistical methods. Similarly, the court found the petitioners’ evidence regarding the useful life of radio affiliation contracts to be inadequate. For the Section 1071 issue, the court recognized that the election could be made on an amended return due to the unique circumstances of an FCC policy change that retroactively allowed certification for the stock sale.

Practical Implications

This decision emphasizes the high burden of proof required for taxpayers to amortize intangible assets like network affiliation contracts. Practitioners must ensure that clients have robust evidence, including industry trends and statistical analyses, to establish the useful life of such assets. The ruling also clarifies that, under exceptional circumstances, taxpayers may make elections on amended returns, particularly when regulatory changes impact their ability to make timely elections. Subsequent cases have cited Roy H. Park Broadcasting to underscore the necessity of proving a reasonably determinable useful life for intangible asset amortization.

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