Banc One Corp. v. Commissioner, 84 T. C. 476 (1985)

The court upheld the use of the residual method for allocating purchase price in bank acquisitions, rejecting post-acquisition allocations not based on contemporaneous evidence.

Summary

Banc One Corp. acquired two banks at prices above book value and sought to allocate the excess to loan and core deposit premiums for depreciation. The court held that Banc One could not increase loan bases using post-acquisition loan spreading without evidence of intent at the time of purchase. Depreciation of core deposits was denied because Banc One relied on hindsight statistics for valuation. The court applied the residual method, allocating any excess purchase price to goodwill and other nondepreciable intangibles, as Banc One failed to prove it paid more than fair market value for the acquired assets.

Facts

Banc One Corp. purchased Athens National Bank (Old Athens) for $49. 27 million and First Citizens Bank for $11. 44 million, both exceeding book values. Banc One later sought to allocate portions of the purchase prices to loan premiums and core deposit intangibles for tax depreciation purposes. They engaged Coopers & Lybrand to allocate the Old Athens purchase price, which resulted in a loan premium and goodwill value. For First Citizens, Coopers allocated to bank charter, trade name, and going concern value but found no goodwill. Banc One also hired Patten, McCarthy & Associates to value core deposits after the acquisitions, using statistical analyses of account behavior post-acquisition.

Procedural History

The IRS disallowed Banc One’s depreciation deductions based on costs exceeding book values. Banc One filed a petition with the Tax Court, arguing for allocations to loan and core deposit premiums. The court considered whether Banc One could depreciate these alleged intangibles and whether its allocation method was valid.

Issue(s)

1. Whether Banc One Corp. is entitled to depreciation deductions for loan or core deposit premiums acquired in the bank purchases?
2. Whether Banc One’s method of allocating the excess of the purchase prices over the fair market values of the tangible assets among all assets acquired is valid?

Holding

1. No, because Banc One failed to establish its basis in the loans and relied on hindsight evidence for core deposit valuation.

2. No, because the residual method should be used to allocate the excess purchase price to goodwill and other nondepreciable intangibles.

Court’s Reasoning

The court rejected Banc One’s loan premium claim, as there was no evidence that Banc One intended to pay more than book value for the loans at the time of purchase. The court also disallowed depreciation of core deposit intangibles, as Banc One’s valuation was based on post-acquisition statistics, which cannot be used to establish useful life for depreciation. The court upheld the residual method, reasoning that it provides the most accurate valuation of intangibles when the total purchase price and tangible asset values are known. Banc One’s alternative valuation methods were rejected because they relied on speculative assumptions and did not accurately reflect the value of the acquired intangibles at the time of purchase.

Practical Implications

This decision emphasizes the importance of contemporaneous evidence in allocating purchase prices in bank acquisitions. Taxpayers cannot rely on post-acquisition analyses to establish bases for depreciation. The residual method remains the preferred approach for valuing goodwill and other nondepreciable intangibles in such transactions. This case may impact how banks structure and document their acquisition agreements, ensuring that asset values are negotiated and documented at the time of purchase. Subsequent cases have followed this approach, reinforcing the need for clear evidence of asset values at the time of acquisition.

