Citizens & Southern Corp. v. Commissioner, 91 T. C. 463 (1988)

A bank's deposit base can be considered a depreciable asset separate from goodwill if it has an ascertainable cost basis and a limited useful life that can be reasonably estimated.

Summary

Citizens & Southern Corp. acquired nine banks and allocated part of the purchase price to the deposit base, an intangible asset representing the future income from existing core deposits. The company sought to depreciate this asset under section 167 of the Internal Revenue Code. The Tax Court ruled that the deposit base was indeed depreciable, as it was separate from goodwill and had a reasonably estimable useful life based on account closure data. The decision allows banks to allocate costs to the deposit base for tax purposes, impacting how similar acquisitions are analyzed and depreciated.

Facts

Citizens & Southern Corp. acquired nine banks in Georgia between 1981 and 1982. The acquisitions were structured as taxable asset purchases, and the company allocated a portion of the purchase price to the deposit base, which it defined as the present value of the future income stream from existing core deposits. These core deposits included demand transaction accounts, regular savings accounts, and time deposit open accounts. The company's methodology involved valuing the deposit base based on historical data on account closures and projected future income streams from these accounts.

Procedural History

The Commissioner of Internal Revenue disallowed Citizens & Southern Corp. 's depreciation deduction for the deposit base, claiming it was part of non-depreciable goodwill. The company petitioned the U. S. Tax Court for a redetermination of the deficiency. The court reviewed the case and found in favor of the taxpayer, allowing the depreciation of the deposit base.

Issue(s)

1. Whether the deposit base acquired by Citizens & Southern Corp. had an ascertainable cost basis separate and distinct from the goodwill and going-concern value of the acquired banks.
2. Whether the deposit base had a limited useful life, the duration of which could be ascertained with reasonable accuracy.

Holding

1. Yes, because the company established that the deposit base was a separate and

distinct asset from goodwill, based on the economic value of the opportunity to invest the core deposits.
2. Yes, because the company demonstrated a limited useful life through lifing studies that projected account closures and subsequent income streams, which were corroborated by actual data.

Court's Reasoning

The court applied section 167 of the Internal Revenue Code and related regulations, which allow depreciation of intangible assets if they have an ascertainable cost basis and a limited useful life. The court found that the deposit base met these criteria because it was based on the predictable behavior of deposit accounts and the company's ability to project future income from these accounts. The court rejected the Commissioner's argument that the deposit base was indistinguishable from goodwill, citing the company's detailed valuation methods and the recognition of deposit base as a separate asset under accounting principles and regulatory guidelines. The court also noted that the company's projections of account life were supported by subsequent actual experience.

Practical Implications

This decision allows banks to treat the deposit base as a depreciable asset when acquiring other banks, potentially affecting the allocation of purchase prices in future acquisitions. It may lead to changes in how banks approach tax planning and financial reporting related to acquisitions. The ruling also highlights the importance of detailed valuation studies and projections in establishing the depreciability of intangible assets. Subsequent cases may reference this decision when determining the treatment of similar intangible assets in other industries.

