Jefferson-Pilot Corp. v. Commissioner, 98 T. C. 435 (1992)

FCC broadcast licenses can be considered amortizable franchises under IRC section 1253 when the FCC retains significant control over the license.

Summary

In Jefferson-Pilot Corp. v. Commissioner, the U. S. Tax Court ruled that FCC broadcast licenses were franchises under IRC section 1253, allowing Jefferson-Pilot Corporation to amortize the cost of the licenses over a 10-year period. The court found that the FCC retained significant control over the licenses, satisfying section 1253's criteria. The case involved Jefferson-Pilot's purchase of three radio stations for $15 million, where a portion of the purchase price was attributed to the FCC licenses. This decision impacts how businesses can treat the cost of acquiring public franchises for tax purposes, particularly in regulated industries like broadcasting.

Facts

In 1973, Jefferson-Pilot Communications Co. , a subsidiary of Jefferson-Pilot Corporation, entered into an agreement to purchase radio stations WQXI-AM, WQXI-FM, and KIMN-AM for $15 million. The purchase included the transfer of FCC broadcast licenses for these stations. Jefferson-Pilot allocated a portion of the purchase price to these licenses and sought to amortize this amount under IRC section 1253. The FCC imposed a transfer fee of $300,000, which was split between Jefferson-Pilot and the seller. Jefferson-Pilot later commissioned valuations to determine the value of the FCC licenses separate from other assets.

Procedural History

Jefferson-Pilot filed a consolidated federal income tax return for 1974 and claimed a deduction for the amortization of the FCC licenses under IRC section 1253. The IRS disallowed the deduction, leading Jefferson-Pilot to file a petition with the U. S. Tax Court. The Tax Court heard the case and issued its decision on April 13, 1992, allowing Jefferson-Pilot to amortize the cost of the FCC licenses over 10 years.

Issue(s)

1. Whether an FCC broadcast license qualifies as a "franchise" under IRC section 1253(b)(1)?
2. Whether the FCC retained a "significant power, right, or continuing interest" in the FCC licenses, as required by IRC section 1253(a), to allow for amortization under section 1253(d)(2)?

Holding

1. Yes, because an FCC broadcast license is an agreement that grants the right to provide broadcasting services within a specified area, fitting the definition of a

© 2025 SCOTUSreports.com. All rights reserved.

“franchise” under section 1253(b)(1).
2. Yes, because the FCC retained the right to disapprove license assignments and prescribe standards of quality for broadcasting services and equipment, satisfying the criteria of section 1253(a).

Court’s Reasoning

The Tax Court applied IRC section 1253, which allows for the amortization of franchise costs if the transferor retains significant control over the franchise. The court found that an FCC license is a franchise under section 1253(b)(1) because it represents an agreement to provide broadcasting services within a specified area. The court rejected the IRS’s argument that only private franchises qualified, citing the broad definition of “franchise” in the statute and prior case law. The court also determined that the FCC retained significant control over the licenses, as it had the power to disapprove license assignments and set technical standards for broadcasting. The court relied on expert testimony to value the licenses, adopting the valuations provided by Broadcast Investment Analysts, Inc.

Practical Implications

This decision allows businesses in regulated industries to amortize the cost of acquiring public franchises over 10 years, affecting tax planning and financial reporting. It clarifies that public franchises, such as FCC licenses, can be treated similarly to private franchises for tax purposes under section 1253. Businesses acquiring assets that include public franchises should carefully allocate purchase prices and consider the potential for amortization. The ruling may influence how similar cases involving other types of public franchises are analyzed in the future. It also highlights the importance of expert valuations in determining the allocable value of intangible assets like FCC licenses.

© 2025 SCOTUSreports.com. All rights reserved.