Meredith Corp. v. Commissioner, 102 T. C. 406 (1994)

Intangible assets acquired in a business purchase may be amortizable if their value can be determined and they have a limited useful life.

Summary

Meredith Corporation purchased Ladies' Home Journal (LHJ) and sought to amortize the value of three intangible assets: the employment relationship with editor-in-chief Myrna Blyth, noncompetition agreements with the seller and its president, and subscriber relationships. The Tax Court allowed amortization of the subscriber relationships but rejected Meredith's claims regarding the Blyth employment and noncompetition agreements. The court found that Meredith failed to establish a value for the Blyth relationship beyond the remaining term of her contract and did not provide strong proof to reallocate consideration to the noncompetition agreements beyond the amounts stated in the contracts. The court valued the subscriber relationships at $14,641,000, allowing additional basis adjustments for fulfillment costs in subsequent years.

Facts

In January 1986, Meredith Corporation acquired the assets of LHJ from Family Media, Inc. (FMI) for $92 million. The purchase included subscriber lists, an employment contract with editor-in-chief Myrna Blyth, and noncompetition agreements with FMI and its president, Robert Riordan. Meredith sought to amortize the value of these intangible assets. The employment agreement with Blyth had 35 months remaining, and the noncompetition agreements were for five years. Meredith's valuation of the Blyth employment relationship was based on her impact on advertising revenue, while the noncompetition agreements were valued based on potential lost profits if Riordan competed. Meredith valued the subscriber relationships using an income approach, accounting for subscription and advertising income.

Procedural History

Meredith filed tax returns claiming amortization deductions for the intangible assets. The IRS disallowed these deductions, and Meredith petitioned the U. S. Tax Court. The court consolidated the cases for trial, briefing, and opinion. The IRS conceded that the subscriber relationships were amortizable but disputed the values assigned by Meredith to all three assets.

Issue(s)

1. Whether Meredith established the remaining useful life and value of the employment relationship with Myrna Blyth?
2. Whether Meredith provided strong proof to support its allocation of additional consideration to the noncompetition agreements?

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3. What was the value of the LHJ subscriber relationships during the years in issue?

Holding

1. No, because Meredith failed to establish the remaining useful life and value of the Blyth employment relationship beyond the remaining 35 months of her contract.
2. No, because Meredith did not provide strong proof to support its allocation of additional consideration to the noncompetition agreements beyond the amounts stated in the contracts.
3. The court determined Meredith's basis in the subscriber relationships to be $14,641,000, allowing amortization deductions based on agreed useful lives.

Court's Reasoning

The court applied the residual method to allocate the purchase price among the acquired assets. For the Blyth employment relationship, the court found the expert reports unreliable and speculative, rejecting Meredith's claim for a 13. 94-year useful life and $25,700,000 value. The court upheld the IRS's valuation of $135,000 for the remaining 35 months of Blyth's contract. Regarding the noncompetition agreements, the court required "strong proof" to reallocate consideration beyond the amounts stated in the agreements. Meredith's expert report was deemed unconvincing, and the court upheld the IRS's position. For the subscriber relationships, the court accepted the income approach to valuation but adjusted for fulfillment costs and excluded the editor advertising exclusion related to Blyth. The court found the value of the subscriber relationships to be $14,641,000, with additional basis adjustments for subsequent years.

Practical Implications

This decision clarifies that intangible assets acquired in business purchases may be amortizable if their value and limited useful life can be established. Taxpayers must provide strong proof to reallocate consideration beyond contractual terms. The court's acceptance of the income approach for valuing subscriber relationships provides guidance for future cases. Businesses acquiring intangible assets should carefully document the value and useful life of such assets to support amortization claims. This case also highlights the importance of considering fulfillment obligations when valuing subscriber relationships. Subsequent cases, such as Newark Morning Ledger Co. v. United States, have built on this decision in the context of intangible asset amortization.

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