

A brief of taxation case

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of the A brief of taxation case Facts: The case petition was heard and determined before the Supreme Court of the United State. It was concerned with the determination of the determining the value and taxation of inherited property encumbered by non-recourse mortgage. The petitioner inherited the property (land and property following the death of her husband leaving her the single benefactor of the will. She (petitioner) was in contract with the mortgage to continue operating the property and pay net rental received to the mortgagee. In 1932, the property has attracted a principal debt of \$255,000 with additional accrued interest of \$7042. In 1938, the property was sold a net sales of \$2,500.00 (after deducting \$500.00 sales expenses). The petitioner reported 50% of the net sales value (\$1250.00) as taxable income (Bittker 277).

Issues:

Issue 1: Did the initial basis held by the petitioner include full value of the inherited property as undiminished by the debt/loan?

Issue 2: Is it correct for the petitioner to include the debt amount value in calculating the amount realized from sales?

Analysis: According to the petitioner, the property she had inherited was in the form of equity which according to the tax laws was zero tax based. The amount collected from the sales should have been treated as her net gain from the sales of equity (Yin 208). The IRS commissioner to the contrary argued that the petitioner had inherited land and building and not equity. He cited that before the selling, the petitioner was allowed depreciation deductions of \$25,000 in excess on the premises. Likewise, the commissioner pointed out that the petitioner received money equivalent to the net sales on top of the debt amount transferred to the buyer of the

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property (Yin 214).

First, the court addressed the meaning of the word "property" and whether it was a synonym of "Equity". The court agreed with the IRS commissioner in addressing how to treat inherited "property". In the ruling the court agreed that there was no evidence whatsoever to conclude that both words meant the same thing. Secondly, court said that by replacing the word "property" with "equity" under the tax law would attract negative complications in the future cases. The major problem would have occurred while determining the value of depreciation to be subjected on a property. Subsequently, the action would undermine some of administrative rules in existence (Yin 250).

The court secondly determined that the value the petitioner realized from selling the "property" should be subject to the conclusion made under the first issue. The court maintained that there must exist actual money receipt or receipt of any other property on a transaction for it to be subjected to a taxable gain. Finally, the court ruled that the petitioner by transferring the property to the purchaser is deemed to have benefited from the mortgage transfer. Part of the court ruling stated as follows: " We are ... concerned with the reality that an owner of property, mortgaged at a figure less than that at which the property will sell, must and will treat the conditions of the mortgage exactly as if they were his personal obligations. If he transfers subject to the mortgage, the benefit to him is as real and substantial as if the mortgage were discharged, or as if a personal debt in an equal amount had been assumed by another (Yin 255)."

Conclusion: From the ruling we can say that any gain from disposition or sale of property is calculated by deducting adjusted basis from net sales realized.

The Supreme Court found out that property was inclusive of any physical

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thing owned by someone who has a right to sell or dispose them (Bittker 277).

(Historical note: The court agreed that the Congress had no intention for the word "property" to mean the same as "equity").

Works Cited

Bittker, Boris I. " Tax Shelters, Nonrecourse Debt, and the Crane Case." *Tax Law Review* (1978): 33: 277.

Yin, George K. "The Story of Crane: How a Widows Misfortune Led to Tax Shelters". In aron, Paul L. (ed.). *Tax stories: An in-depth look at ten leading federal income tax cases*. New York: Foundation Press, (2002. pp. 207-258.