

STATE OF NEW YORK
TAX APPEALS TRIBUNAL

In the Matter of the Petition	:	
of	:	
RICHARD BASCIANO	:	DECISION
for Revision of a Determination or for Refund	:	DTA No. 813063
of Tax on Gains Derived from Certain Real	:	
Property Transfers under Article 31-B of the	:	
Tax Law.	:	

Petitioner Richard Basciano, 6259 Medora Road, Linthicum, Maryland 21090, filed an exception to the determination of the Administrative Law Judge issued on June 1, 1995 denying petitioner's motion for partial summary judgment and granting summary judgment in favor of the Division of Taxation. Petitioner appeared by M. David Baker, Esq. The Division of Taxation appeared by Steven U. Teitelbaum, Esq. (Susan Hutchison, Esq., of counsel).

Petitioner did not file a brief on exception. The Division of Taxation filed a brief in opposition on July 10, 1995, which date began the six-month period for the issuance of this decision. Oral argument was not requested.

The Tax Appeals Tribunal renders the following decision per curiam. Commissioner Donald C. DeWitt took no part in the consideration of this decision.

ISSUE

Whether interest should accrue from the date of transfer of title by eminent domain to the date on which compensation for the taking of the subject property was actually received by petitioner, and whether, if petitioner should obtain further compensation after litigation for the taking of his property, interest should accrue from the date of transfer of title by eminent domain to the date on which such further compensation may be received.

FINDINGS OF FACT

We find the facts as determined by the Administrative Law Judge. These facts are set forth below.

Petitioner, Richard Basciano, of Glen Burnie, Maryland, owned real property in the Times Square area of Manhattan located at the street address of 210-212 West 42nd Street.

In October of 1984, the New York State Urban Development Corporation ("Urban Development Corporation") approved a development plan which was, in the words of Joanne Gentile, general counsel of the Urban Development Corporation, in her letter dated June 30, 1988 to Realty 42nd Street Associates¹ (Exhibit "1" attached to the petition):

"designed to eliminate the blighted conditions in the West 42nd Street area. Briefly, this Plan provides for the construction of new buildings for commercial and retail use and for the restoration of historic theatres."

Attorney Gentile, in this letter of June 30, 1988, also advised Realty 42nd Street Associates that it was necessary that the Urban Development Corporation acquire by eminent domain the property at 210-212 West 42nd Street.

The record on this motion describes a lengthy legal process for establishing the compensation to be paid by the Urban Development Corporation for the taking of petitioner's property, which may be summarized as follows:

- (i) On April 18, 1990, Supreme Court Justice Stanley Parness issued an Order of Condemnation of petitioner's property, along with other parcels in the Times Square area;²

¹It appears that Richard Basciano, a partner in Realty 42nd Street Associates, acquired the 50% partnership interest of Samuel Rappaport on June 9, 1987 and apparently became the individual owner of the property at issue (according to the attachment to the Notice of Determination dated March 5, 1993 included in Exhibit "8" to the petition).

²The copy of the order included in Exhibit "2" to the petition does not list all of the parcels condemned, but it discloses that the condemnees appeared by 16 law firms, respectively, and the order noted that "the amount of the security posted by the developer to assure compensation . . . has been increased to \$241,000,000"

(ii) On July 29, 1991, the Urban Development Corporation paid to petitioner the sum of \$3,500,000.00 which was accepted as a partial payment;³

(iii) On April 2, 1992, the Urban Development Corporation paid to petitioner an additional \$3,600,000.00, making a total payment to petitioner as of that date of \$7,100,000.00 (\$3,500,000.00 + \$3,600,000.00), which was accepted by petitioner as an additional partial payment;

(iv) The parties have stipulated that "the final compensation has yet to be determined by the Court before which [the issue of just compensation for the taking of property] is being litigated" and attorney Baker has indicated in the petition dated August 18, 1994 filed on behalf of petitioner that petitioner will be seeking an additional \$3,000,000.00 "at a trial sometime in 1995" (§ 20 of petition).

PETITIONER'S GAINS TAX REPORTS

On August 13, 1991, shortly after his receipt of the initial payment of \$3,500,000.00 from the Urban Development Corporation, petitioner reported the transfer of the Times Square property at issue by the filing of "questionnaire forms and supporting documentation", as indicated by a letter dated August 27, 1991 of a tax technician of the Division of Taxation ("Division"). It is observed that such questionnaire forms and supporting documentation were not included in the record. The tax technician advised petitioner as follows:

"Upon review of your submission, we find the total consideration for the transfer of the subject property is not determinable at this time. Therefore, it is required that you report any future additional consideration received, and remit payment of the tax due within fifteen (15) days after receipt of said additional consideration."

A tentative assessment and return dated August 27, 1991, apparently transmitted by the tax technician with his letter of the same date, shows zero tax due and was signed by petitioner on September 3, 1991 (Exhibit "4A" attached to the petition).

³In her letter of June 30, 1988, attorney Gentile of the Urban Development Corporation had advised Realty 42nd Street Associates that it was offering "as just compensation for acquiring your property the sum of \$3,500,000.00" which was "the full amount of UDC's highest approved appraisal."

On April 2, 1992, the same day on which petitioner received the additional \$3,600,000.00 from the Urban Development Corporation (making a total payment to petitioner as of that date of \$7,100,000.00), petitioner filed a supplemental gains tax return (Exhibit "6" to the petition) reporting total gains tax due of \$118,096.42 calculated as follows:

Total received from Urban Development Corporation	\$7,100,000.00
Less original purchase price	<u>(5,919,035.78)</u>
Gain subject to tax	\$1,180,964.22
tax due at 10%	\$ 118,096.42

On April 2, 1992, the Urban Development Corporation had, according to the parties' stipulation, "simultaneously cut and issued a check payable to the NYS Department of Taxation & Finance in the sum of \$151,520.70." Consequently, on April 3, 1992, petitioner sought a refund of \$33,424.28 (\$151,520.70 - \$118,096.42 [amount shown due on supplemental return] = \$33,424.28) from the tax technician. Subsequently, on or about October 14, 1992, petitioner filed a formal claim for refund in the amount of \$33,424.28.

The Division issued a Notice of Determination dated March 5, 1993 asserting additional gains tax due of \$6,805.02, plus interest of \$37,762.47, and denying petitioner's claim for refund.

An attachment to the Notice of Determination showed the following calculation of tax due of \$6,805.02:

Total consideration		\$7,100,000.00
Less: Purchase price paid	\$4,582,500.00	
Capital improvements	600,000.00	
Selling expenses	<u>334,242.78</u>	
Original purchase price		<u>5,516,742.78</u>
Gain subject to tax		\$1,583,257.22
Tax due at 10%		\$ 158,325.72
Less: Payment received		<u>151,520.70</u>
		\$ 6,805.02

On November 22, 1994, the Division asserted an additional real property transfer gains tax (a greater deficiency) of \$20,750.00, plus interest. This additional amount of \$20,750.00 plus the amount of \$6,805.02 asserted in the Notice of Determination totals \$27,555.02, plus

interest. The basis for the additional deficiency was detailed in an attachment to a letter dated November 22, 1994 from Division attorney DeWitt to attorney Baker as follows:

Total "carry-over" original purchase price	\$1,950,000.00
Consideration paid 6/87 for 50% interest acquired from former partner Rappaport	3,037,500.00
Selling expenses (legal fees)	<u>321,742.78</u>
Total allowable original purchase price	\$5,309,242.78

As noted above, the Division had previously allowed an original purchase price of \$5,516,742.78 in calculating tax due of \$6,805.02. The attachment to attorney DeWitt's letter showed an understatement of tax of \$20,750.00 computed as follows:

Original purchase price initially allowed	\$5,516,742.78
Recalculated original purchase price	<u>5,309,242.78</u>
Overstatement of original purchase price initially allowed	\$ 207,500.00
Understatement of tax	\$ 20,750.00

The parties reached an agreement concerning the correct original purchase price to be used in this matter by their stipulation:

"[T]he original purchase price of the Petitioner for purposes of Article 31-B of the Tax Law in the property which is the subject of this proceeding is \$5,321,742.78" (\$12,500.00 more than the original purchase price recalculated above by the Division of \$5,309,242.78).

Based on this agreed-upon original purchase price of \$5,321,742.78, the parties agreed that there was additional gains tax due of \$26,305.02. Petitioner has paid this additional tax, plus interest on such tax from April 17, 1992 to January 27, 1995, the date of payment.

The parties agree that the issues remaining to be resolved in this matter concern when interest commences to run when property is taken by eminent domain and payment for the property is not made until years later. In this instance, petitioner contends that (i) interest should not accrue from April 18, 1990, the date of transfer of title by eminent domain, through April 17, 1992, 15 days⁴ after the date (April 2, 1992) on which additional compensation of \$3,600,000.00 was received by petitioner and (ii) interest should not accrue on any additional

⁴Tax Law § 1442(a) provides that gains tax is due no later than 15 days after the date of transfer.

compensation he may receive from the litigation until after it has received such additional compensation.

PROCEDURAL PERMUTATION

At the suggestion of the Administrative Law Judge made by his letter of February 23, 1995 and agreed to by the parties, petitioner's motion was placed on hold pending the decision of the Tax Appeals Tribunal in Matter of E.L.C. Hotel Corp. On April 6, 1995, the Tribunal issued its decision in Matter of E.L.C. Hotel Corp., and the parties were given until May 1, 1995 to submit comments on the Tribunal's decision for review by the Administrative Law Judge. No comments were submitted.

OPINION

The Administrative Law Judge, relying on the Tribunal's decision in Matter of E.L.C. Hotel Corp. (Tax Appeals Tribunal, April 6, 1995), determined that interest was due for the period April 18, 1990, through April 17, 1992 and will be due on any additional compensation received by petitioner as a result of his pending litigation with the Urban Development Corporation.

On exception, petitioner states that the holding in E.L.C. Hotel is wrong and should be reversed. Petitioner argues that interest should not be imposed for the period April 18, 1990 through April 17, 1992 because no gain was realized until April 2, 1992. Petitioner further argues that interest should also not be imposed for the period commencing April 18, 1992 on any additional compensation it may receive as a result of the pending litigation until such compensation is received.

Petitioner also argues that the Tribunal, in its decision in E.L.C. Hotel, miscited Matter of Town of Islip (49 NY2d 354, 426 NYS2d 220) when it stated petitioners were entitled to receive "the market value of their properties at the time the properties were appropriated." Petitioner further argues that the Tribunal, in E.L.C. Hotel, also stated that the petitioner must guess the amount of money it will receive from the condemnor.

In response, the Division argues that the Tribunal "correctly quoted and paraphrased the principles enunciated by the Court of Appeals in Matter of Town of Islip" (Division's brief in opposition, p. 3). The Division further argues that the Tribunal, in E.L.C. Hotel, did not require an owner of property to guess the amount of money it would receive from the condemnor. The Division states that "[r]ather, the Tribunal suggested that, given the issue of the market value of the real property for condemnation purposes, a taxpayer could estimate his gains tax due on the basis of that value" (Division's brief in opposition, p. 4).

We find no basis in the record before us for modifying the determination of the Administrative Law Judge or in anyway to change our decision in E.L.C. Hotel in any respect.⁵ Therefore, we affirm the determination of the Administrative Law Judge for the reasons stated in said determination.

Accordingly, it is ORDERED, ADJUDGED and DECREED that:

1. The exception of Richard Basciano is denied;
2. The determination of the Administrative Law Judge is affirmed;
3. The motion of Richard Basciano for partial summary determination is denied; and

⁵As we noted in E.L.C. Hotel:

"[t]he result in this case appears particularly harsh because the transfers were not voluntary on the part of petitioners. In a case where the transferor had freely negotiated the consideration that would be subsequently determined, it would not seem so harsh to require the transferor to pay interest on the tax related to the delayed consideration. However, we can find no basis in Article 31-B that would allow us to treat the consideration received in these involuntary transfers differently from that in a negotiated transfer. In our view, if there is to be relief for these types of transactions it requires a legislative change" (Matter of E.L.C. Hotel Corp., supra).

4. The petition of Richard Basciano is denied.

DATED: Troy, New York
December 21, 1995

/s/John P. Dugan
John P. Dugan
President

/s/Francis R. Koenig
Francis R. Koenig
Commissioner