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Bar Is Burned Down, Condemned, Then Taxed!

Robert Willson was shot during a burglary, survived lawsuits and even federal prison, but the IRS seems to have had the last laugh. Willson opened a bar in Des Moines in 1986 and weathered scuffles, incessant makeovers, the changing moods of rock and roll, and even a big fire. Then the City of Des Moines condemned his bar for airport expansion. But in the end the IRS wanted a piece too.



Willson's case went to [Tax Court](#), which reviewed the bar's history, including the glory of rock in the 1980s and 1990s. These were the changing acts that brought in the patrons that peopled the bar—and that eventually burned it down. Of all the bar's transformations over the years, none seemed more interesting to the Tax Court than the era in which it was home to a special type of dancing.

As the court put it delicately, the bar added just *“minor improvements (e.g., poles) and opened an establishment felicitously—and paronomastically—called the ‘Landing Strip,’ in which young lady ecdysiasts engaged in the deciduous calisthenics of perhaps unwitting First Amendment expression.”* Wonder why tax lawyers tend to be nerds? Wonder no more.

As Des Moines moved more and more vigorously to condemn the joint, Willson faced his own legal troubles with money and drugs. He signed over the bar to his lawyer to finish the condemnation proceedings and started serving a federal prison term. When the City completed the condemnation in 2000, it deposited the money in a trust account. Willson had made a profit and was finally out of the bar business.

You might think the tax issues here would be simple enough, but when Willson reported his gain on the property the IRS insisted the gain was larger. The dispute turned on Willson's tax basis in the property. We should all know that basis can be a moving number.

It starts with the purchase price, is adjusted upward for improvements and downward for depreciation. Willson made, remade, rejiggered, modified, and remodified the bar numerous times. It is painstaking to keep track of this minutia, but the tax law requires it.

Yet Willson's biggest problem was the fire that seriously damaged his bar in 1994. Why? Willson received insurance proceeds for the damages. He took some of the insurance money and reinvested it in the property. That is specifically regulated by [Section 1033](#) of the tax code.

Unfortunately, Willson didn't reinvestment **all** of the money. He used \$169,000 of the \$200,000 in insurance money to rebuild his bar, but couldn't account for the rest.

For more, see:

[Don't Fail To Consider Taxes When Settling Litigation](#)

[10 Things to Know About Taxes on Damages](#)

[Tax-Free Physical Sickness Recoveries in 2010 and Beyond](#)

[Is Post-Traumatic Stress Disorder Physical Injury for Tax Purposes?](#)

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