American Wire Steel Co. v. Commissioner, 40 B.T.A. 635 (B.T.A. 1939)

A taxpayer's method of accounting for returnable containers must clearly reflect income, and an arbitrary approximation of income based on past return rates is not acceptable when actual net additions to a reserve account can be determined.

Summary

American Wire Steel Co. charged customers a fixed amount for reels used to ship wire and cable, creating a "Reel Contingent Profit Reserve." They estimated a 90% return rate and only reported 10% of the gross additions to this reserve as income. The Commissioner argued the actual net increase in the reserve should be income. The Board of Tax Appeals held that the reels were sold to customers with an option to resell them back to the company. Therefore, the company's arbitrary 10% income approximation did not accurately reflect income, and the Commissioner's method of including the actual net additions to the reserve was upheld.

Facts

American Wire Steel Co. sold wire and cable products shipped on reels.

Customers were charged a fixed amount for the reels, exceeding the reels' cost, and this profit was placed in a "Reel Contingent Profit Reserve."

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