Cuba Railroad Co. v. Commissioner, 9 T.C. 211 (1947)

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A taxpayer using the accrual method of accounting is not required to accrue income when there is significant uncertainty regarding its collection.

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Summary

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Cuba Railroad Co., an accrual method taxpayer, provided railroad services to the Cuban government. Although the Cuban government owed the company money for services rendered, payment was uncertain due to political instability and the whims of future administrations. The Tax Court held that the company was not required to accrue this income because there was substantial doubt regarding its collectibility. This case illustrates an exception to the general rule of accrual accounting, allowing taxpayers to defer recognizing income when collection is genuinely uncertain.

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Facts

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The Cuba Railroad Co. provided railroad transportation services to the Cuban government.r
The Cuban government incurred debt to the company for these services.r
Despite the debt existing, there was considerable uncertainty regarding when and if the Cuban government would actually pay the outstanding amount.r
The company used the accrual method of accounting.r

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in the Cuba Railroad

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Co.’s income tax.r
The Cuba Railroad Co. petitioned the Tax Court for a redetermination of the deficiency.r
The Tax Court reviewed the case and rendered its decision based on the evidence presented.r

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Issue(s)

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Whether a taxpayer using the accrual method of accounting must accrue income when the collection of that income is highly uncertain due to political or other factors.r

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Holding

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No, because accrual accounting requires a fixed right to receive income, and the uncertainty surrounding the Cuban government’s payment meant that the railroad company did not have a fixed right to the income during the taxable year.r

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Court’s Reasoning

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The Tax Court relied on the principle that accrual accounting requires a “fixed and unconditional right to receive” income. Citing *San Francisco Stevedoring Co., 8 T. C. 222*, the court emphasized that

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