9 T.C. 662 (1947)

Income is not accruable for tax purposes when its receipt depends on a contingency or future events that make its amount uncertain during the tax year in question.

Summary

Luckenbach Steamship Co. had three vessels requisitioned by the War Shipping Administration (WSA) in 1942, which were subsequently sunk. A dispute arose between the WSA and the Comptroller General regarding the valuation of the vessels for war risk insurance. As a result, the WSA suspended payments on lost vessels. Luckenbach, an accrual basis taxpayer, sought to include the anticipated insurance proceeds in its 1942 income. The Tax Court held that the gains from the vessel losses were not accruable in 1942 because the amount to be received was contingent on the resolution of the WSA's dispute and therefore was not determinable with reasonable accuracy.

Facts

Luckenbach owned and operated freight vessels. In early 1942, the WSA requisitioned three of Luckenbach's vessels. Later, charter agreements were created, fixing war risk insurance valuation at $65 per dead-weight ton, plus a bonus. The vessels were sunk by enemy action before the end of September 1942. Luckenbach filed claims with the WSA. A controversy arose between the WSA and the Comptroller General over the allowable amount. On December 17, 1942, the WSA suspended all payments, including those for lost vessels, unless hardship was shown.

Procedural History

Luckenbach did not include the insurance proceeds in its 1942 tax return. The Commissioner determined deficiencies, including the gains from the vessel losses in Luckenbach's 1942 income. Luckenbach contested the Commissioner's determination in the Tax Court.

Issue(s)

Whether the gain realized by Luckenbach from the loss of its vessels, which were requisitioned by the War Shipping Administration, was accruable and includible in its 1942 income, given the uncertainty surrounding the amount to be received due to a dispute between the WSA and the Comptroller General regarding valuation methods.

Holding

No, because the amount to be received by Luckenbach was contingent on the resolution of the dispute between the WSA and the Comptroller General, and

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therefore was not determinable with reasonable accuracy in 1942.

Court's Reasoning

The court reasoned that for an accrual basis taxpayer, income is recognized when the right to receive it is fixed, and the amount is reasonably determinable. The court emphasized the significant controversy between the WSA and the Comptroller General. The WSA's notice of December 17, 1942, indicated that payments would be withheld pending clarification of valuation issues, effectively denying liability for payment under the original charter terms. The court quoted *U.S. Cartridge Co. v. United States, 284 U.S. 511*, stating, "When the amount to be received depends upon a contingency or future events, it is not to be accrued until such contingency or the events have occurred and fixed with reasonable certainty the fact and amount of income." Since the amount Luckenbach would receive depended on the resolution of the WSA-Comptroller General dispute, the gain was not accruable in 1942.

Practical Implications

This case clarifies the application of the accrual method of accounting in situations where the amount of income is uncertain due to ongoing disputes or contingencies. It reinforces that a taxpayer need not recognize income until the amount is fixed and determinable with reasonable accuracy. This ruling protects accrual-basis taxpayers from having to pay taxes on revenue they might never receive, or whose amount is highly uncertain. Later cases have cited Luckenbach for the proposition that a mere expectation of income is insufficient for accrual; there must be a fixed right to receive a reasonably ascertainable amount.

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