10 T.C. 1096 (1948)

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A loss from the sale of farmland is not attributable to the operation of a farming business regularly carried on by the taxpayer when the sale is an isolated transaction, thus limiting the net operating loss carryover.

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Summary

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Joseph Sic, a farmer, sold a portion of his unimproved farmland in 1942, incurring a loss. He sought to carry this loss over to reduce his 1943 income tax liability, claiming it was a net operating loss attributable to his farming business. The Tax Court ruled against Sic, holding that the loss from the sale of the land was not attributable to the regular operation of his farming business because the sale was an isolated transaction and not part of his regular farming activities. Therefore, the net operating loss carryover was limited.

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Facts

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Joseph Sic was a farmer who lived on a farm and engaged in farming. In 1919, Sic purchased an unimproved farm near his home. From 1919 until 1942, Sic retained possession and cultivated the farm as part of his farming activities. On January 7, 1942, Sic sold the unimproved farm, resulting in a loss of $15,300. Sic's net income from farming was $2,240 in 1941 and $10,403.66 in 1943. Sic sought to deduct part of the loss as a net operating loss carryover.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Sic's 1943 income tax. Sic petitioned the Tax Court for a redetermination, arguing that the loss from

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the sale of the farm should be considered a net operating loss attributable to his farming business and carried over to 1943. The Tax Court ruled in favor of the Commissioner, limiting the net operating loss carryover.

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Issue(s)

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Whether the loss sustained by the petitioner in 1942 from the sale of a portion of unimproved farmland is attributable to the operation of a trade or business regularly carried on by him within the meaning of Section 122(d)(5) of the Internal Revenue Code, thus qualifying as a net operating loss carryover to the taxable year 1943.

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Holding

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No, because the sale of the farmland was an isolated transaction and not part of the regular operation of the taxpayer’s farming business.

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Court’s Reasoning

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The court relied on Section 122(d)(5) of the Internal Revenue Code, which limits deductions not attributable to the operation of a trade or business regularly carried on by the taxpayer. The court cited *Dalton v. Bowers, 287 U.S. 404*, which interpreted similar language in the Revenue Act of 1924. The Supreme Court in *Dalton* stated that the provision was intended to provide relief for losses incurred in an established business during a depression, not for

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