Sullenger v. Commissioner, 11 T.C. 526 (1948)

The cost of goods sold, which is subtracted from gross receipts to determine gross income, includes payments made for goods even if those payments exceed government price controls.

Summary

J.H. Sullenger, operating Select Meat Co., paid amounts exceeding O.P.A. price controls for meat during the tax years in question. He then sold the meat. The Commissioner determined deficiencies in his income tax, disallowing the excess payments as part of the cost of goods sold. The Tax Court held that the full amount paid for the meat, including the excess over O.P.A. prices, was includable in the cost of goods sold. Gross income, which is subject to income tax, is determined by subtracting the cost of goods sold from gross receipts.

Facts

During the tax years in question, J.H. Sullenger operated a sole proprietorship called Select Meat Co. He purchased meat from wholesale packing firms, paying amounts exceeding the price controls established by the Office of Price Administration (O.P.A.). Sullenger kept his accounts on an accrual basis, using a fiscal year ending June 30. He then sold the purchased meat through his business.

Procedural History

The Commissioner determined deficiencies in Sullenger's income tax, disallowing the portion of meat purchase prices exceeding O.P.A. price controls from the cost of goods sold. Sullenger petitioned the Tax Court for a redetermination of the deficiencies.

Issue(s)

Whether the Commissioner erred in failing to subtract from gross receipts, as cost of goods sold, the excess over O.P.A. prices paid by J.H. Sullenger for meat which he then sold through his business.

Holding

Yes, because the amounts paid in excess of O.P.A. prices were actually a part of the cost of goods sold and must be deducted from gross receipts to arrive at gross income.

Court's Reasoning

The court reasoned that the Commissioner's attempt to recharacterize the excess payments as a

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