***Van Pickerill & Sons, Inc. v. Commissioner, 7 T.C.M. (CCH) 308 (1948)***

Escrow deposits, intended for future services, are not deductible as ordinary business expenses until the obligation to provide those services is either performed or demonstrably breached.

**Summary**

Van Pickerill & Sons, Inc. sought to deduct escrow deposits made to a manufacturer for future processing services as ordinary business expenses in the years the deposits were made (1943-1945) or, alternatively, in 1945 when the taxpayer allegedly abandoned the agreement or committed a breach. The Tax Court held that the deposits were not deductible as business expenses in 1943-1945 because the services were not yet rendered. The court also held that a deduction in 1945 was improper because the agreement was not demonstrably breached or abandoned in that year. The deposits were only deductible when the agreement was terminated in 1946.

**Facts**

Van Pickerill & Sons, Inc. (petitioner) entered into an agreement with a manufacturer (Redstone) to process wool waste into spun yarn. The agreement required the petitioner to make escrow deposits as partial payment for the future processing services. The escrow funds would be credited against future bills for processing. The processing was to occur during a post-war period, beginning approximately 18 months after V-J Day. The petitioner made deposits of $13,755.66 in 1943, $11,788.82 in 1944, and $4,141.64 in 1945. The petitioner ceased giving new business to Redstone sometime around June 1945 due to pricing disagreements. The agreement was formally terminated in April 1946.

**Procedural History**

The Commissioner of Internal Revenue disallowed the petitioner's claimed deductions for the escrow deposits in 1943, 1944, and 1945. The petitioner appealed this determination to the Tax Court.

**Issue(s)**

Whether escrow deposits made for processing services to be rendered in a future period are deductible as ordinary business expenses in the year the deposits were made, or in a year where the taxpayer alleges the agreement was breached or abandoned.

**Holding**

No, because the amounts deposited were for services to be rendered in the future and the agreement was not demonstrably breached or abandoned in 1945. The deposits were only deductible in 1946 when the agreement was terminated.

## Court's Reasoning

The court reasoned that the escrow deposits were intended for services to be performed in the future, specifically during the post-war period. Until those services were rendered, or the obligation to provide them was definitively breached, the deposits could not be considered ordinary business expenses. The court found that the petitioner's decision to cease doing business with Redstone in 1945, due to pricing disagreements, did not constitute a mutual abandonment or breach of the agreement. The court emphasized that the agreement was not actually terminated until April 1946, stating: "We hold that the agreement involved was terminated and the petitioner's $29,686.12 escrow deposit was forfeited not earlier than in April, 1946, and, accordingly, that such amount did not constitute business expenses incurred in 1945 and is not deductible as such, or otherwise, in that year." The court implicitly applied the principle that deductions are generally allowed in the tax year when all events have occurred which establish the fact of the liability giving rise to such deduction and the amount thereof can be determined with reasonable accuracy.

## Practical Implications

This case illustrates that taxpayers cannot deduct payments for future services until those services are performed, or a clear breach of contract occurs. The key takeaway is the importance of demonstrating a definitive event that establishes the liability. In similar cases, taxpayers should carefully document the terms of any agreements, evidence of performance or non-performance, and any formal termination of contracts to support the timing of expense deductions. This ruling highlights the importance of the "all events test" in determining the proper year for deducting expenses. The case influences how businesses account for prepaid expenses and deposits for future services, requiring a clear understanding of when the obligation to provide the service is either fulfilled or demonstrably broken.

 