*16 T.C. 134 (1951)*

A taxpayer using the accrual method of accounting cannot deduct estimated future expenses if the liability is contingent and the amount is not fixed and determinable within the taxable year.

**Summary**

The petitioners, a partnership engaged in strip mining, sought to deduct an estimated expense for backfilling mined land in 1945, the year the mining occurred. The partnership used the accrual method of accounting and was obligated by leases and state law to refill the land. Although the partnership created a reserve for the estimated cost, the backfilling was not performed until 1946. The Tax Court held that the deduction was not allowable in 1945 because the liability was contingent and the amount not fixed until the work was actually performed. The court emphasized that setting up reserves for contingent liabilities, even if prudent business practice, is not generally deductible under the Internal Revenue Code.

**Facts**

The partnership of Cromling & Harrold engaged in strip mining coal. They used the accrual method of accounting. Their leases and West Virginia law required them to restore the surface of the land after mining. They obtained strip mining permits and posted bonds to ensure compliance. In 1945, they mined 31.09 acres and estimated the backfilling cost at $31,090, crediting this to a reserve account. The backfilling was not done in 1945 because the partnership was focused on mining operations.

**Procedural History**

The Commissioner of Internal Revenue disallowed the deduction for the estimated backfilling expense in 1945. The Tax Court consolidated the partners' individual cases challenging the deficiency determination. The Tax Court upheld the Commissioner's decision, finding the expense not properly accruable in 1945.

**Issue(s)**

Whether a partnership using the accrual method of accounting can deduct an estimated expense for future land restoration when the obligation exists in the taxable year but the work is not performed and the cost is not fixed until a later year.

**Holding**

No, because the liability to pay the cost of backfilling was not definite and certain in 1945, and the actual cost was not yet incurred or determinable.

**Court's Reasoning**

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The court distinguished between a fixed liability and a contingent liability. While the partnership had an obligation to backfill the land, the amount of that liability was not fixed in 1945. The court cited several precedents, including cases involving renovation and restoration obligations, to support the proposition that a general obligation is insufficient to justify deducting a reserve based on estimated future costs. The court quoted *Spencer, White & Prentis, Inc. v. Commissioner*, stating, "The only thing which had accrued was the obligation to do the work which might result in the estimated indebtedness after the work was performed." The court emphasized that deductions are only allowed when the liability to pay becomes definite and certain. The fact that the partnership filed an amended return reducing the estimated cost to the actual cost further highlighted the uncertainty of the expense in 1945. The court acknowledged the taxpayer's reliance on sound accounting practices, but reinforced that tax law doesn't always align with accounting theory.

**Practical Implications**

This case clarifies that the accrual method requires more than just an existing obligation for an expense to be deductible. The amount of the expense must be fixed and determinable within the taxable year. This ruling impacts industries with ongoing obligations to perform future work, such as environmental remediation or construction projects. Taxpayers in these industries cannot deduct estimated costs until the work is performed and the amount is certain. Later cases have cited *Harrold* to reinforce the principle that contingent liabilities are generally not deductible for accrual basis taxpayers, even if the obligation is probable. It demonstrates the importance of distinguishing between accruing an expense and setting up a reserve for a potential future expense.

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