Southern Coast Corporation v. Commissioner, 17 T.C. 417 (1951)

r
r

Losses attributable to the failure to exercise an option to buy property are considered short-term capital losses for tax purposes, regardless of the taxpayer's underlying motivations for allowing the option to lapse.

r
r

Summary

r

Southern Coast Corporation (petitioner) paid consideration for an option to purchase natural gas. The petitioner intended to sell the gas to a specific customer but failed to secure the customer. Consequently, the petitioner did not exercise the option. The petitioner sought to deduct the cost of the option as an ordinary operating loss. The Tax Court held that the loss was a short-term capital loss under Section 117(g)(2) of the Internal Revenue Code, as it was directly attributable to the failure to exercise the option, not to the failure to obtain a customer.

r
r

Facts

r

r
Southern Community Gas Company granted Southern Coast Corporation (petitioner) an option to purchase the entire output of its gas wells in exchange for cash advancements and credit.r
The petitioner intended to exercise the option and sell the natural gas to a specific customer.r
The petitioner failed to obtain a contract with the intended customer.r
As a result, the petitioner allowed the option to lapse without exercising it.r
The petitioner then sought to deduct the consideration paid for the option as an ordinary operating loss.r

r
r

Procedural History

© 2025 SCOTUSreports.com. All rights reserved.

r

r
The Commissioner of Internal Revenue determined that the loss from the unexercised option was a short-term capital loss under Section 117(g)(2) of the Internal Revenue Code.r
The Southern Coast Corporation petitioned the Tax Court for a redetermination of the deficiency.r
The Tax Court upheld the Commissioner’s determination.r

r
r

Issue(s)

r

r
Whether amounts expended by the petitioner are deductible only as a short term capital loss by reason of the provisions of section 117 (g) (2), Internal Revenue Code.r

r
r

Holding

r

r
Yes, because the loss was directly attributable to the failure to exercise the option to buy property, and therefore, it is considered a short-term capital loss under Section 117(g)(2) of the Internal Revenue Code.r

r
r

Court’s Reasoning

r

r
The court reasoned that the plain language of Section 117(g)(2) applies to “gains or losses attributable to the failure to exercise privileges or options to buy or sell property.”r
The court rejected the petitioner’s argument that the loss was attributable to the failure to obtain a customer, stating that such an interpretation would make the

© 2025 SCOTUSreports.com. All rights reserved.

section impossible to administer practically. The court stated,

© 2025 SCOTUSreports.com. All rights reserved.