Goulds Mfg. Co. v. Commissioner, 29 T.C. 1088 (1958)

Property taxes accrue for deduction purposes in the year the amount becomes fixed, payable, and due and when a lien attaches to the property or the taxpayer becomes personally liable, whichever is earliest.

Summary

The case concerns the deductibility of property taxes for Goulds Manufacturing Co. under the accrual method of accounting. The issue was whether the taxes accrued in the year they were levied (December of the preceding year) or in the year they became a lien on the property (January 1st of the tax year). The Tax Court held that the taxes did not accrue when levied because neither a lien attached nor did the taxpayer become personally liable at the time of levy. The court applied the established rule that property taxes accrue when the amount is fixed, payable, and due, and either a lien attaches or personal liability arises, finding that the date of lien creation dictated the proper year for accrual. The decision emphasizes the importance of the accrual method and the specific conditions under state law when determining the timing of tax deductions.

Facts

Goulds Manufacturing Co., an accrual-basis taxpayer operating oil-producing properties in New York, contested the Commissioner's disallowance of property tax deductions. The taxes were levied in December for the following year. Until April 5, 1950, these taxes became a lien in December of the prior year. New York amended its tax law to make property taxes a lien on January 1 of the tax year. The Commissioner disallowed deductions for the years 1950 and 1951, claiming the taxes accrued in the lien year, not the levy year. Goulds argued for deduction in the year of levy, consistent with its prior practice.

Procedural History

The Commissioner determined deficiencies in Goulds' income tax for 1950 and 1951 due to the timing of property tax deductions. The Tax Court heard the case, and the facts were stipulated. Goulds did not file a brief. The Tax Court ruled in favor of the Commissioner.

Issue(s)

1. Whether property taxes levied in December but becoming a lien on January 1st of the tax year accrued and were deductible in the year of levy (prior year) or the year the lien attached (tax year).

Holding

1. No, because the property taxes did not accrue until the lien attached on January

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1st, and thus were deductible in the tax year, not the year of levy.

Court’s Reasoning

The court referenced Section 23(c)(1) of the 1939 Internal Revenue Code, which allowed deductions for

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