33 T.C. 303 (1959)

Amounts credited to a dealer's reserve account from the sale of customer credit notes are includible in the dealer's taxable income in the year the credits are made, even if the dealer has no recourse against the customer's default, provided the dealer has a fixed right to receive the reserves subject to the condition subsequent of diminution in the event of customer default.

Summary

The U.S. Tax Court held that General Gas Corporation must include in its 1952 taxable income the amounts credited to its dealer's reserve accounts. The company sold its products on installment plans and transferred the associated credit notes to financing agencies without recourse. The financing agencies withheld a portion of the purchase price, which was then credited to the dealer's reserve accounts along with a portion of finance charges paid by the customers. The court held that the nature of the credits, even without recourse, constituted taxable income in the year the credits were established.

Facts

General Gas Corporation, an accrual-basis taxpayer, sold its products on installments. It arranged for financing by transferring its customers' credit purchase notes to financing agencies without recourse. These agencies withheld a portion of the purchase price, placing it into a dealer's reserve account, along with portions of the finance charges. The critical factual element was that the reserve was subject to reduction in the event of customer default.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in General Gas Corporation's income tax for 1952. The Tax Court delayed its decision pending the Supreme Court's ruling in *Commissioner v. Hansen*, which resolved a conflict among lower courts on the same issue. After *Hansen* was decided, the Tax Court addressed the specific arguments raised by General Gas, referencing the Supreme Court's decision in the process.

Issue(s)

Whether the amounts credited to General Gas Corporation's dealer's reserve accounts should be included in its 1952 taxable income, even though the notes were transferred without recourse.

Holding

Yes, because the credits to the dealer's reserve accounts constituted income to General Gas Corporation in the year credited, despite the lack of recourse.

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Court’s Reasoning

The court applied the principle established in *Commissioner v. Hansen*, holding that the absence of independent liability (non-recourse) did not change the outcome. The court reasoned that even though the taxpayer had no recourse, it acquired a

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