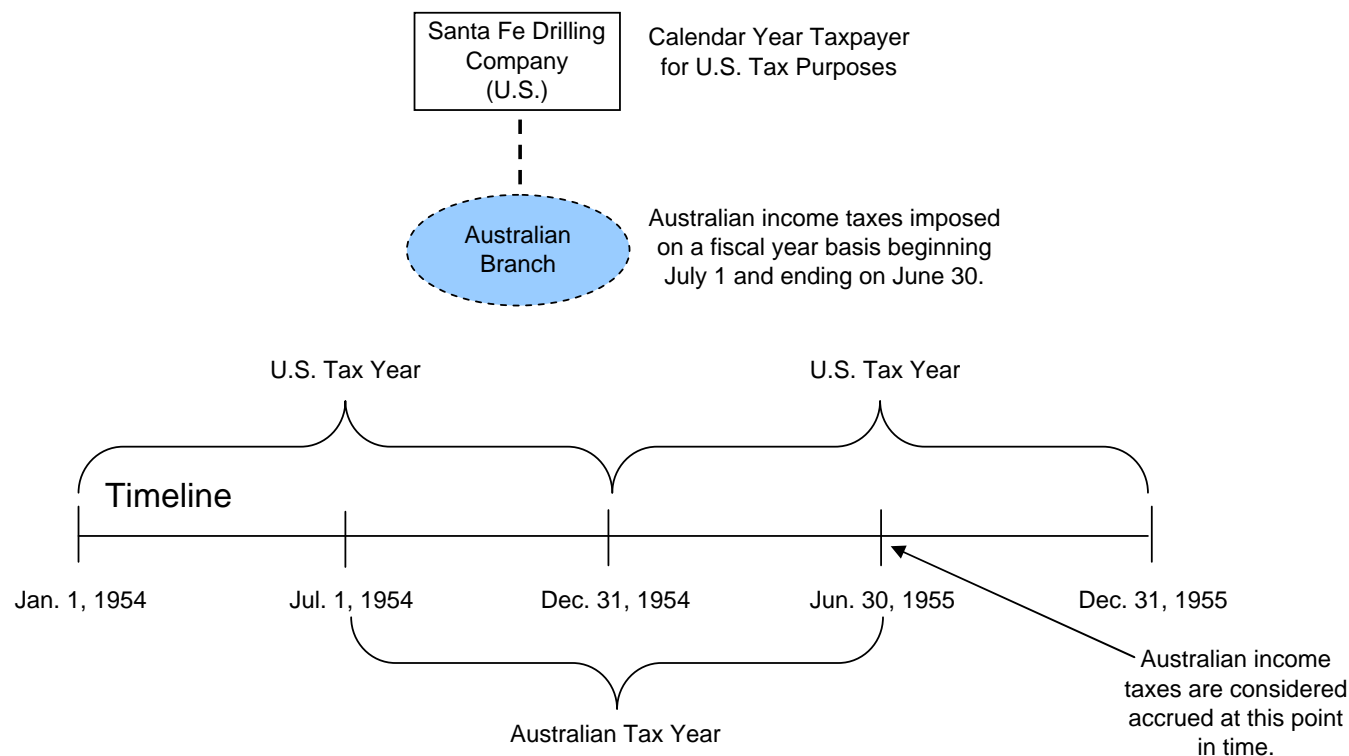


**Accrual of Australian Income
Taxes for Calendar Year Taxpayer**



Santa Fe Drilling Company, a California corporation, was primarily engaged in the business of contract oil well drilling operations in the United States and in foreign countries. It kept its books of account and filed its Federal income tax returns on a calendar year basis. In July, 1954, Santa Fe commenced oil well drilling operations in Australia which drilling operations continued for more than one year. Australia imposed an income tax on a fiscal year basis beginning on July 1 of each calendar year and ending on June 30 of the succeeding year. The only issue in the case was whether the Australian income taxes "accrued" during the calendar year 1954.

The general rule is that foreign taxes accrue where all the events occur which fix the amount of the tax and determine the liability of the taxpayer to pay it. For the purpose of the foreign tax credit, foreign income taxes are considered as accrued in the taxable year in which the taxpayer's liability for such foreign taxes becomes fixed and determinable. Generally such accrual occurs in the United States taxable year within which the taxpayer's foreign taxable year ends. There was no evidence that all events had occurred which fixed the amount of the total or of any part of such taxes, that the amount of the total or of any part thereof was readily ascertainable or ascertainable at all, even approximately, and that Santa Fe's liability for all or any part thereof was determined at the end of the calendar year 1954. Therefore, the court held that the Australian income taxes accrued in 1955.