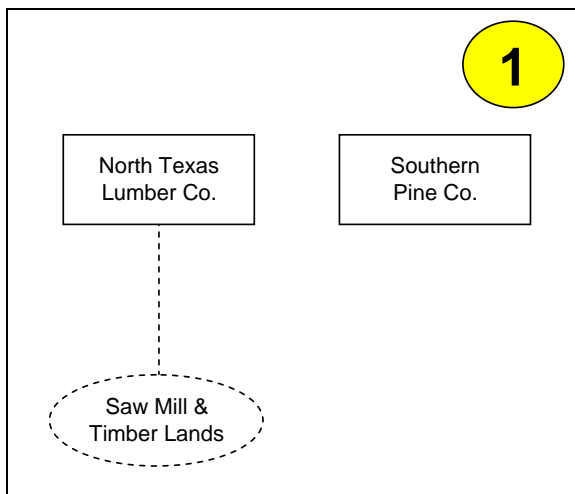


**Commissioner v. North Texas Lumber Co.
281 U.S. 11 (1930)**

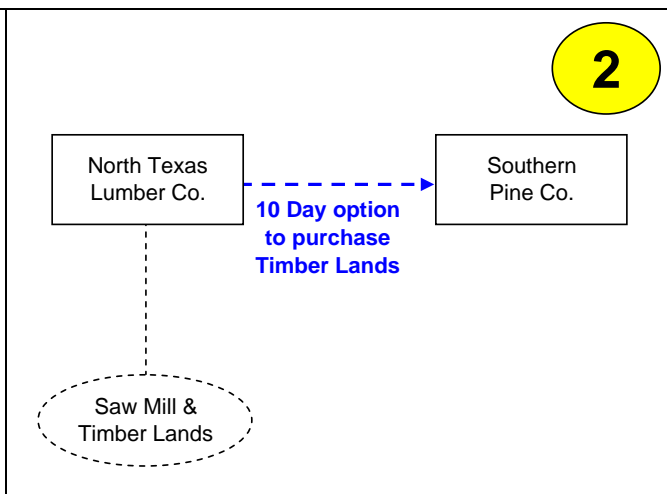
Timing of Sale Transaction

Copyright © 2009 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com

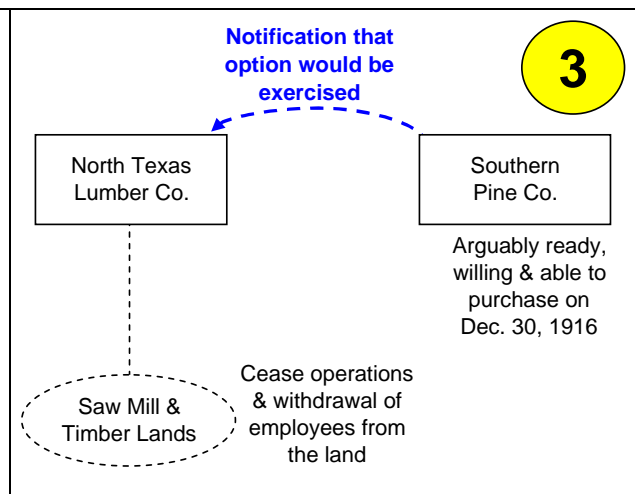
Initial Structure (Dec. 26, 1916)



Option Issued (Dec. 27, 1916)



Notification & Ceasing of Operations (Dec. 30, 1916)



North Texas Lumber Co., a Texas corporation, for some time prior to 1917 was engaged in operating a sawmill, selling lumber and buying and selling timber lands. On December 27, 1916, it gave to the Southern Pine Company a ten day option to purchase its timber lands for a specified price. Southern Pine was solvent and able to make the purchase. On the same day, title was examined and found satisfactory to Southern Pine. It arranged for the money needed and December 30, 1916, notified North Texas Lumber Co. that it would exercise the option. On that day, North Texas Lumber Co. ceased operations and withdrew all employees from the land. On January 5, 1917, the papers which were required to effect the transfer were delivered, the purchase price was paid and the transaction was finally closed.

North Texas Lumber Co. kept its accounts on the accrual basis and treated the gain from the sale as income in 1916. The Commissioner determined that the gain had been realized in, and was taxable for 1917.

An executory contract of sale was created by the option and notice, December 30, 1916. In the notice the purchaser declared itself ready to close the transaction and pay the purchase price "as soon as the papers were prepared." North Texas Lumber Co. did not prepare the papers necessary to effect the transfer or make tender of title or possession or demand the purchase price in 1916. The title and right of possession remained in it until the transaction was closed. Consequently the gain was taxable in 1917.

Closing (Jan. 5, 1917)

