

**Revenue Ruling 80-58,
Situation 1**

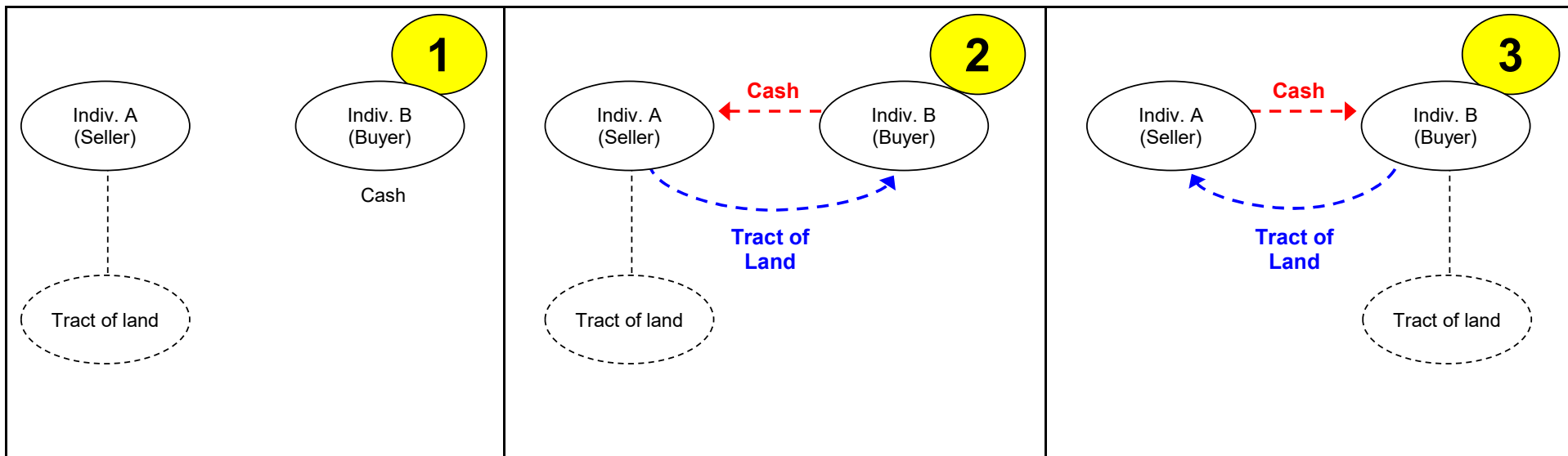
**Rescission of Contract
Within Same Taxable Year**

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Initial Structure

Sale (Feb. 1978)

Rescission (Oct. 1978)



In February 1978, A, a calendar year taxpayer, sold a tract of land to B and received cash for the entire purchase price. The contract of sale obligated A, at the request of B, to accept reconveyance of the land from B if at any time within nine months of the date of sale, B was unable to have the land rezoned for B's business purposes. If there were a reconveyance under the contract, A and B would be placed in the same positions they were prior to the sale.

In October 1978, B determined that it was not possible to have the land rezoned and notified A of its intention to reconvey the land pursuant to the terms of the contract of sale. The reconveyance was consummated during October 1978, and the tract of land was returned to A, and B received back all amounts expended in connection with the transaction.

The rescission of the sale during 1978 placed A and B at the end of the taxable year in the same positions as they were prior to the sale. Thus, the original sale is to be disregarded for federal income tax purposes because the rescission extinguished any taxable income for that year with regard to that transaction. No gain on the sale will be recognized by A under section 1001.

Ending Point

