

**Revenue Ruling 80-58,
Situation 2**

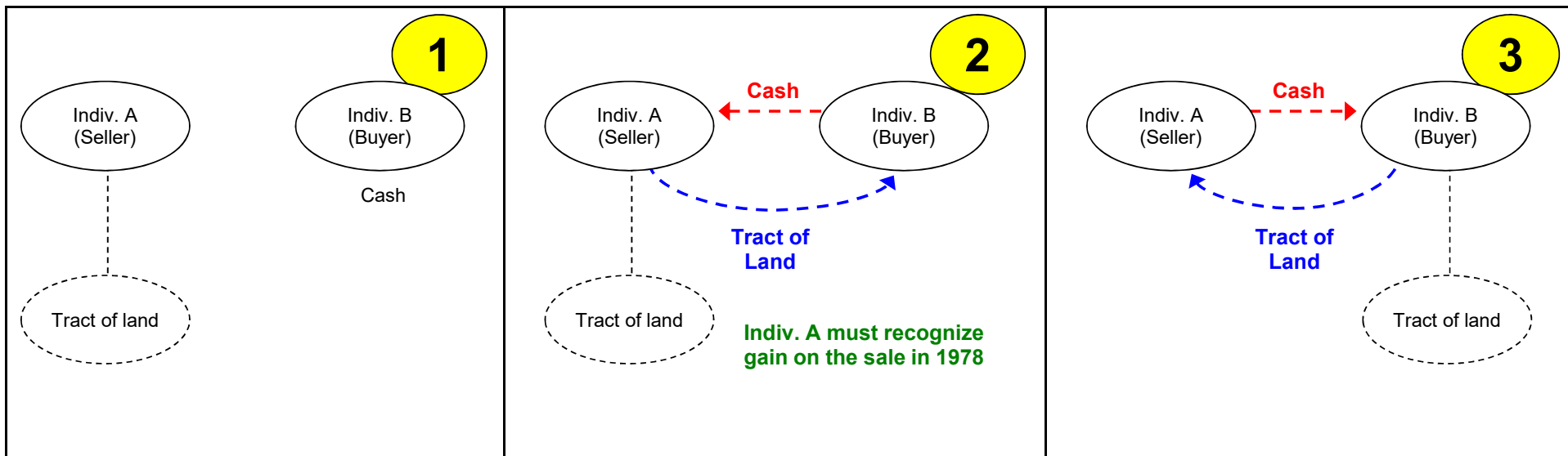
**Rescission of Contract
In Following Taxable Year**

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Initial Structure

Sale (Feb. 1978)

Rescission (Feb. 1979)



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 one year 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 January 1979, 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 February 1979, and the tract of land was returned to A, and B received back all amounts expended in connection with the transaction.

There was a completed sale in 1978. However, because only the sale and not the rescission occurred in 1978, at the end of 1978 A and B were not in the same positions as they were prior to the sale. The rescission in 1979 is disregarded with respect to the taxable events occurring in 1978. A must report the sale for 1978. In 1979, when the property was reconveyed to A, A acquired a new basis in the property, which was the price paid to B for such reconveyance.

Ending Point

