

Burnet v. Sanford & Brooks Co.

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Annual Accounting

Sanford & Brooks Co.

1913
Loss

1914
Income

1915
Loss

1916
Loss

Total
Contract
Losses
\$176K

1920
Settlement
Proceeds
\$193K

(total contract
loss plus interest)

Excerpt from Hillsboro National Bank v. Commissioner, 460 U.S. 370 (1983):

In Sanford & Brooks, a taxpayer who had incurred a net loss on a long-term contract managed to recoup the loss in a lawsuit in a later year. The earlier net losses on the contract contributed to net losses for the business in most of the tax years during the performance of the contract. The Court rejected the taxpayer's contention that it should be able to exclude the award on the theory that the award offset the earlier net losses.

Today, this inequitable result is partially or wholly mitigated through the ability to carry back and carry forward net operating losses. See Code § 172.

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