As appears from the above table, a substantial part of the "Ordinary Net Income" reported by the Studio in each year consisted of "gains from cancellation" rather than "Earned Income".

The Commissioner ruled that the Studio was required to report the entire amount of each contract as gross income for the year in which the contract was entered into. Accordingly, in his notices of deficiency he increased the ordinary net income of the partnership for each fiscal year by the amount of the increase in the "deferred income" account in that year, viz., $24,602.22 for 1952, $104,798.41 for 1953, and $12,797.97 for 1954. (R. 256.) The Tax Court, three judges dissenting, sustained the Commissioner's determination. (R. 246–264.) The court of appeals, one judge dissenting, reversed the Tax Court. (R. 278–291.)

The Commissioner's petition for certiorari to review the court of appeals' decision was pending when this Court decided *American Automobile Assn.* v. *United States*, 367 U.S. 687. On the same day, the Court granted certiorari, vacated the judgment, and remanded the case to the court of appeals for reconsideration in the light of that decision. 367 U.S. 911; 368 U.S. 873. Upon reconsideration, after re-argument, the court of appeals vacated its prior judgment and affirmed the decision of the Tax Court. (R. 273–274.)

SUMMARY OF ARGUMENT

I. THE ADVANCE RECEIPTS

A. Deeply rooted in our taxing system is the axiom that the statutory "net income"—the difference be-

tween the total amount of "gross income" items and the total amount of "deduction" items—must be computed and reported on an annual ("taxable year") basis, regardless of whether a particular contract or transaction which gives rise to the items of gross income and deduction spans more than one taxable year or ultimately produces a net profit or loss. As applied to a taxpayer reporting taxable income under the "accrual" method of accounting, as distinguished from the "cash" method, the annual accounting rule requires that an item of gross income (*e.g.*, compensation for services, gain from a sale, *etc.*) be reported in the taxable year when the right to receive it becomes fixed (irrespective of when it is receivable), which can be no later than the year in which the income is actually received under claim of right and without restriction as to its use. Conversely, an item of deduction (*e.g.*, expense, loss, etc.) may be offset against gross income only in the taxable year in which the taxpayer's liability to pay it becomes fixed (irrespective of when it is payable), which can be no later than the year in which it is actually paid without protest.

This Court has repeatedly held that a taxpayer who receives money under a claim of right and without restriction as to its disposition must report it as gross income in the year received—whether he employs the cash or the accrual method of accounting—even though he may become obliged to and does refund the income in a later year. Since an obligation to restore the very income received does not relieve the recipient of the duty to report the income in the year of receipt, an obligation to incur future expenses in consideration of the income received surely does not suffice to do so. Only if and when the expenses of performance are *actually incurred—i.e.,* only in the taxable year when the liability to pay becomes fixed in fact and amount—will an accrual basis taxpayer become entitled to deduct them.

In so far as the advance receipts are concerned, the situation here is in all material respects the same as in *American Automobile Assn. v. United States,* 367 U.S. 687, which holds that compensation paid in advance for future services must be reported in the taxable year of receipt and may not be deferred until a later year in which the services are to be performed.

2. The Studio's accounting system violates the annual accounting rule and related accrual principles. By attempting to "match" against compensation currently received for future services "related costs" of future performance, the Studio in effect is seeking, in the guise of deferral of "unearned income", to reduce its actual gross income by a reserve for estimated future expenses—an accounting procedure specifically disapproved by this Court. The Studio ought not be permitted to accomplish indirectly, by way of exclusion from gross income, what it cannot do directly by way of deduction. Essentially the same "earned" income argument here advanced by the Studio and amicus was rejected by this Court in the *AAA* case.

We have no quarrel with the Studio's contention (reiterated by the amicus curiae) that its system of accounting was in conformity with generally accepted commercial accounting practices. However, as this

Court has often held, commercial accounting methods are not determinative of proper accounting for federal income tax purposes. Accounting practices designed to reflect net income in reports to stockholders or creditors are not necessarily suited to the requirements of a tax system, and the meaning accorded "net income" by the accounting profession differs from its meaning as used in the Internal Revenue Code and consistently applied by this Court.

Far from supporting its contention, the cases upon which the Studio chiefly relies (*e.g., United States* v. *Anderson,* 269 U.S. 422) support the decision below. They involved deduction items, and they hold that such items are deductible by an accrual basis taxpayer only in the taxable year in which all the events which fix the liability to pay have occurred—the so-called "all events" test. The "related costs" which the Studio is here attempting indirectly to deduct are expenses not yet incurred. As for the cases involving accrual of income upon which the Studio relies (*e.g., Spring City Co.* v. *Commissioner,* 292 U.S. 182), they likewise support the Government's position. They stand for the proposition that gross income must be reported in the taxable year in which the taxpayer's right to receive it becomes fixed, and the opinions are to be searched in vain for any suggestion that one who receives advance payment for future services has no "right to receive" the amounts when received.

Finally, in harmony with the controlling decisions, the Regulations also embody the fixed "right to receive" test for the accrual of gross income items (and the correlative fixed "liability to pay" test for accrual of deduction items), and the Commissioner has expressly ruled that prepaid service income received under a claim of right and without restriction as to its use must be reported in its entirety in the year of receipt.

B. As this Court pointed out in *American Automobile Assn.* as an independent ground for its decision (367 U.S. at 694-697), Congress has evinced an unmistakable intention to endorse the long-standing view of the Commissioner and the courts precluding deferral of income received in one taxable year for services to be performed in a later year. This is demonstrated by the legislative history surrounding the enactment and repeal of 1954 Code, Sections 452 and 462, dealing respectively with deferral of prepaid income and deductions of reserves for estimated expenses. And it is confirmed by the history of recent legislation (1954 Code, Sections 455 and 456) authorizing, with carefully specified safeguards and limitations, only designated classes of taxpayers (publishers of periodicals and certain membership corporations) to defer prepaid income. These indications, together with the unsuccessful career of several bills designed to permit income-deferral by other classes of taxpayers, show that Congress is aware of the problem which this case presents and has it under continuing study. In *American Automobile Assn.* the Court expressly refrained from carving out exceptions to the annual accounting rule and corollary accrual principles which Congress itself

has not seen fit to create—a course made particularly desirable by "the complications inherent in the problem and its seriousness to the general revenue" (367 U.S. at 697). The same considerations, we submit, counsel a similar course here.

C. In any event, the accounting system used by the Studio is artificial, and must, for that reason, be rejected.

II. THE FUTURE INSTALLMENTS

With respect to the unreceived portion of the contract price—the future installments—we acknowledge that it was error for the Commissioner to treat the entire amount as having accrued at the time the contract was executed. The "right to receive" a future installment became fixed on either of the following dates, whichever arrived earlier: (1) when the services for which the installment was payable were rendered, or (2) when the installment payment became due under the contract. The case should be remanded for a determination, under this test, of how much of the unreceived portion of the contract price accrued within each taxable year.

ARGUMENT

INTRODUCTION

The taxpayers, members of a partnership operating a dance studio, entered into contracts with students to furnish a specified number of dancing lessons on dates to be arranged by the student. Part of the contract price was paid in cash (or negotiable notes) at the time the contract was executed, and the balance was payable in installments on fixed dates which bore no relationship to the dates lessons were to be given. Under the terms of the contract the Studio had a right to receive, and did in fact receive, most of the contract price in advance of furnishing lessons.[8] In many instances, the Studio was never called upon to furnish all the lessons contracted for, and after a waiting period it cancelled the contract without refunding the advance payment. The Studio prorated the contract price according to the number of lessons to be furnished under the contract, and in its federal income tax returns (filed on the fiscal year-accrual basis) it reported as gross income for the taxable year only the portion it attributed to lessons given during that year. It treated the balance as "deferred" or "unearned" income, reportable in a subsequent taxable year in which the remaining lessons were to be given or in which the contract was cancelled.[9] Both courts below agreed

with the Commissioner that the Studio's method of accounting did not clearly reflect its annual taxable income, and that the Studio was required to report the full contract price as gross income for the taxable year in which the contract was executed.

The tax accounting problem presented divides itself into two parts: (1) includability in the Studio's gross income for the taxable year of the portion of the contract price received in that year in cash or negotiable notes pursuant to the terms of the contract,[10]

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[8] The record does not contain a contract by contract breakdown of receipts *vis-a-vis* accounts receivable. However, as pointed out in the Statement (*supra*, pp. 6–7), approximately 50 to 60 per cent of the annual ending balance in the Studio's "deferred income" account for each fiscal year represented amounts actually received in cash and negotiable notes on contracts entered into during the year, and the remaining 40 to 50 per cent represented accounts receivable due in the following year (or years). We assume, in the absence of any contrary proof by taxpayer, that these overall percentages are an accurate reflection of the percentages applicable to each individual contract.

[9] The Studio's method of accounting may be illustrated by the following example given by the Tax Court (R. 257):

> On August 1, 1952, the Studio enters into a contract with a student whereby the Studio agrees to teach the student 24 1-hour dancing lessons and the student agrees to pay $240 therefor, $100 down and $20 per month for the next 7 months. (In some cases the student gives a negotiable note for the installment payments.) Lessons are arranged from time to time and at the end of 1952 the Studio has given the student 10 lessons and the student has paid $180, the $100 down and four $20 installments. By March, 1953, the Studio gives the student 10 additional lessons and the student pays $40, two more installments. The student loses interest in the course and does not take the remaining four lessons and the Studio is unable to collect the remaining $20.
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> In 1952 the Studio, which reports on an accrual basis, returns as gross income $100, representing 10 lessons taught at $10 per lesson. During 1953 the Studio returns as gross income $100 representing 10 lessons taught at $10 per lesson. After the contract has been inactive for a year the Studio cancels it, computing a gain or loss thereon. Here the gain would be $20. (Four lessons untaught at $10 per lesson equals $40, less contract price unpaid of $20 equals $20 [illegible]). This $20 gain on cancellation would be returned as gross income in 1954.

[10] In many instances, the Studio received (in addition to cash) negotiable notes, which it negotiated with a bank. After deducting interest charges the bank paid approximately 50 per cent of the amount of the note to the Studio, and credited the other 50 per cent to a reserve account which was transferred to the Studio's general bank account when the note was paid by the student. (R. 250–251.) The 50 per cent received by the Studio in cash from the bank manifestly falls in the same category as the cash received by it directly from students.

for lessons to be furnished after the close of the year (Point I, *infra*); (2) includability of the balance of the contract price receivable in future installments (Point II, *infra*).

With respect to the advance receipts, the issue here is essentially the same as in *American Automobile Assn.* v. *United States,* 367 U.S. 687, rehearing denied, 368 U.S. 890, namely, whether an accrual basis taxpayer may postpone the reporting of compensation received in one taxable year for services to be rendered in a later year, so as to "match" and offset

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As for the other 50 per cent credited to the Studio by the bank in the reserve account, since the Studio had a fixed right to receive the amount credited when the note was paid by the student, subject only to its contingent liability as guarantor, for tax accounting purposes this amount likewise falls in the same category as the cash receipts. See *Commissioner* v. *Hansen*, 360 U.S. 446; *General Gas Corp.* v. *Commissioner*, 293 F. 2d 35 (C.A. 5th), certiorari denied, 369 U.S. 816; *Shapiro* v. *Commissioner*, 295 F. 2d 306 (C.A. 9th), certiorari denied, 369 U.S. 829. The reserve account is indistinguishable from the cash receipts for present purposes for the additional reason that there has been no showing that the fair market value of the notes when received was less than the total amount (cash paid plus reserve credited) at which they were discounted by the bank. See Section 39.22(a)-4 of Regulations 118 under the 1939 Code; Section 1.61-2(d) (1) and (4) of the Regulations under the 1954 Code; *Bratton* v. *Commissioner*, 283 F. 2d 257 (C.A. 6th), affirming 31 T.C. 891; *Kitrell* v. *United States*, 79 F. 2d 259, 262 (C.A. 10th), certiorari denied, 296 U.S. 643; cf. *Pinellas Ice Co.* v. *Commissioner*, 287 U.S. 462, 468-469. At any rate neither the Studio nor the amicus raises any separate question as to the treatment of the notes for purposes of this case, and we suggest the Court may treat them on the same footing as the cash receipts, without resolving the question.

against the amount received "related" service expenses which the taxpayer expects to incur in the later year. It is the Commissioner's position (1) that *any* method of accounting which defers the reporting of compensation actually received in one taxable year constitutes a clear departure from the annual accounting rule and corollary accrual principles consistently applied by this Court in federal income tax cases; (2) alternatively, even assuming (as the Studio and amicus curiae contend) that the *AAA* decision is to be construed as sanctioning the use for federal income tax purposes of a deferral-of-prepaid-income method of accounting which is not "artificial", nevertheless the particular method which the Studio here employed is artificial and, accordingly, was properly rejected.

With respect to the balance of the contract price receivable in future installments, we agree with the Studio that it was not required to accrue the installments at the time the contract was executed, as originally determined by the Commissioner. In our view, the Studio acquired a fixed right to receive the installment payments when it furnished the lessons for which the installments were payable, or when the stipulated time for payment of the installment arrived, whichever date was earlier. Accordingly, we consent to a remand of the case for the purpose of allocating the correct portion of the deferred contract price, on this basis, to each of the taxable years involved.

I. THE ADVANCE RECEIPTS

THE STUDIO'S METHOD OF ACCOUNTING, DEFERRING THE ACCRUAL AND REPORTING OF COMPENSATION RECEIVED IN THE TAXABLE YEAR IN ORDER TO REFLECT RELATED SERVICE EXPENSES TO BE INCURRED IN A LATER YEAR, WAS PROPERLY REJECTED BY THE COMMISSIONER AND BOTH COURTS BELOW AS VIOLATING SETTLED TAX ACCOUNTING PRINCIPLES

A. The Studio's transactional method of accounting does not reflect its taxable net income for each taxable year

1. Under the annual accounting rule and related accrual principles gross income items must be reported in the taxable year in which the right to receive them becomes fixed, and deduction items in the year in which the liability to pay them becomes fixed

Sections 11 and 13 of the Internal Revenue Code of 1939 impose a tax on the "net income" of individuals and corporations, respectively.[11] Section 21 (Appendix, *infra*, p. 69) defines "net income" as the "gross income" less allowable "deductions". Section 22(a) (Appendix, *infra*, p. 69) defines gross income as including compensation for services, and Sections 23 (a) and (e) (Appendix, *infra*, pp. 69-70) respectively authorize the deduction of ordinary and necessary business expenses "paid or incurred during the taxable year" and "losses sustained during the taxable year." Sections 41, 42(a), and 43 (Appendix, *infra*, pp. 70-71) require net income to be computed and reported upon the basis of an "annual accounting period" (the "taxable year"), in accordance with the method of accounting regularly employed by the taxpayer, provided such method clearly reflects the net income for the taxable year. See also section 48 (Appendix, *infra*, p. 71); Sections 39.41-1, 39.41-2, 39.41-3, 39.41-4, 39.42-4, 39.43-1, 39.43-2 of Regulations 118 under the 1939 Code (Appendix, *infra*, pp. 76-83).[12]

For federal income tax purposes, as this Court has frequently noted, the two principal recognized accounting systems are the "cash" and "accrual" methods. Under the cash method, gross income is reported in the taxable year of actual receipt and deductions are taken in the year of actual expenditure. Under the accrual method, gross income items are reported in the year in which the right to receive them becomes fixed, even though they are not immediately receivable, but no later than the year of actual receipt; conversely, deduction items are reported in the year in which they are incurred, i.e., when the liability to pay becomes fixed in fact and

[11] The deficiencies in controversy are for the calendar years 1952, 1953 and 1954, i.e., the taxable years of the individual partners. The taxable years of the partnership, used for information purposes only, are the fiscal years ended March 31, 1952, March 31, 1953, and March 31, 1954. Where the taxable year of a partner is different from that of the partnership, the partner includes in his annual return the share of partnership net income attributable to him for the taxable year of the partnership ending within his own taxable year. Section 188, Internal Revenue Code of 1939, Section 706, Internal Revenue Code of 1954. With respect to the first two of the three years involved, the 1939 Code and Treasury Regulations 118 apply. The comparable provisions of the 1954 Code and implementing Treasury Regulations, which apply to the third year, are substantially the same in all material respects, although more explicit.

[12] The comparable provisions of the 1954 Code are Sections 61, 63, 162, 441, 446, 451, and 461 (Appendix, *infra*, pp. 72-76), and the comparable provisions of the Treasury Regulations under the 1954 Code are Sections 1.441-1, 1.446-1, 1.451-1, 1.461-1 (Appendix, *infra*, pp. 83-99).

reasonably ascertainable in amount, even though payment is not then due, but no later than the year of actual payment. Whichever method is adopted must of course be applied consistently. *Security Mills Co.* v. *Commissioner,* 321 U.S. 281; *Spring City Co.* v. *Commissioner,* 292 U.S. 182; *Commissioner* v. *Hansen,* 360 U.S. 446; *American Automobile Assn.* v. *United States,* 367 U.S. 687; *Brown* v. *Helvering,* 291 U.S. 193; *United States* v. *Anderson,* 269 U.S. 422; Dixie *Pine Co.* v. *Commissioner,* 320 U.S. 516.[13]

The cardinal rule, embodied in 1939 Code Sections 41–43 and repeatedly affirmed by this Court, is that taxable net income must be computed on an annual ("taxable year") basis, whether the cash or the accrual method is selected. Neither income nor deduction items may be accelerated or postponed from one taxable year to another in order to reflect the long-term economic result of a particular transaction or group of transactions. *Security Mills Co.* v. *Commissioner, supra; Spring City Co.* v. *Commissioner, supra; Dixie Pine Co.* v. *Commissioner, supra; Burnet* v. *Sanford & Brooks Co.,* 282 U.S. 359; *Guaranty Trust Co.* v. *Commissioner,* 303 U.S. 493; *Heiner* v. *Mellon,* 304 U.S. 271; *Lewyt Corp* v. *Commissioner,*

[13] Cf. *United States* v. *Consolidated Edison Co.,* 366 U.S. 380, reaffirming these general principles, but holding—on "the very narrow issue" involved (p. 387)—that the remittance of real estate taxes under protest, in accordance with the only method provided by state law for contesting their validity without risk of penalties or seizure and sale of the property, did not constitute a "payment" sufficient to require accrual of the taxes as a deduction in a year prior to the year in which the contest was finally resolved.

349 U.S. 237. As this Court said in *Security Mills, supra* (pp. 286–287):

> The rationale of the system is this: "It is the essence of any system of taxation that it should produce revenue ascertainable, and payable to the government, at regular intervals. Only by such a system is it practicable to produce a regular flow of income and apply methods of accounting, assessment, and collection capable of practical operation." [Quoting from *Burnet* v. *Sanford & Brooks Co.,* 282 U.S. at 363.] [14]

[14] In *Sanford & Brooks* the Court rejected the taxpayer's contention that compensatory damages received in one year under a construction contract could be matched against expenses incurred in a prior year under the contract, in order to arrive at the taxable income. Holding that the amounts received were includible in gross income in the year of receipt, Mr. Justice Stone stated, 282 U.S. at 363–365:

> All the revenue acts which have been enacted since the adoption of the Sixteenth Amendment have uniformly assessed the tax on the basis of annual returns showing the net result of all the taxpayer's transactions during a fixed accounting period, either the calendar year, or, at the option of the taxpayer, the particular fiscal year which he may adopt. Under §§ 230, 232 and 234 (a) of the Revenue Act of 1918, 40 Stat. 1057, respondent was subject to tax upon its annual net income, arrived at by deducting from gross income for each taxable year all the ordinary and necessary expenses paid during that year in carrying on any trade or business, interest, and taxes paid, and losses sustained, during the year. * * *
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> A taxpayer may be in receipt of net income in one year and not in another. The net result of the two years, if combined in a single taxable period, might still be a loss; but it has never been supposed that that fact would relieve him from a tax on the first, or that it affords any reason for postponing the assessment of the tax until the end of

This legal principle has often been stated and applied. The uniform result has been denial both to Government and to taxpayer of the privilege of allocating income or outgo to a year other than the year of actual receipt or payment, *or, applying the accrual basis, the year in which the right to receive, or the obligation to pay, has become final and definite in amount.* But the petitioner urges that § 43 has altered the rule so that a hybrid system, partly annual and partly transactional, may, within administrative discretion, be substituted for that of annual accounting periods. It urges that the change was due to the desire of Congress to prevent distortion of true income. This must mean distortion of true income, not of a given year, but, in the light of ultimate gain, from a series of transactions over a period of years, growing out of, or in some way related to, an initial transaction in the taxable year. The very section on which petitioner relies, however, reiterates the adherence of Congress to the system of annual periods of computation. [Emphasis added.]

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a lifetime, or for some other indefinite period, to ascertain more precisely whether the final outcome of the period, or of a given transaction, will be a gain or a loss.

* * * * *

While, conceivably, a different system might be devised by which the tax could be assessed, wholly or in part, on the basis of the finally ascertained results of particular transactions, Congress is not required by the amendment to adopt such a system in preference to the more familiar method, even if it were practicable. It would not necessarily obviate the kind of inequalities of which respondent complains. * * *

* * * * *

The taxpayer in *Security Mills*, reporting on the accrual basis, had included in gross income for 1935 certain processing taxes which it had collected as part of the sales price of flour sold to customers. Concurrently, in order to reflect the fact that, though contesting the constitutionality of the tax, it had in fact paid the amounts collected into a depository in a suit to enjoin their payment over to the Government, the taxpayer claimed the taxes as a deduction from gross income. Applying the annual accounting rule and related accrual concepts, the Court sustained the Commissioner's disallowance of the deduction. The result undoubtedly would have been no different had the taxpayer, instead of reporting the amount in question as gross income and currently claiming it as a deduction, merely attempted (as does the taxpayer here) to exclude the amount from gross income by "deferring" its accrual.

In *Spring City Co.* v. *Commissioner*, 292 U.S. 182, a taxpayer filing its returns on the accrual basis sold goods on open account to a vendee which became insolvent during the taxable year of the sale. This Court held that the taxpayer could not defer reporting the account receivable as gross income in the year of sale in order to reflect the related bad debt loss resulting from the vendee's bankruptcy, since the "right to receive" the sale price from the vendee became "fixed" during the taxable year, whereas the related loss was not incurred and deductible until a later year. Mr. Chief Justice Hughes stated (pp. 184-185):

Petitioner first contends that the debt, to the extent that it was ascertained in 1920 to be worthless, was not returnable as gross income in that year, that is, apart from any question of deductions, it was not to be regarded as taxable income at all. We see no merit in this contention. Keeping accounts and making returns on the accrual basis, as distinguished from the cash basis, import that it is the *right* to receive and not the actual receipt that determines the inclusion of the amount in gross income. When the right to receive an amount becomes fixed, the right accrues. * * * [Italics the Court.]

* * * * *

If such accounts receivable become uncollectible, in whole or part, the question is one of the deduction which may be taken according to the applicable statute. See *United States* v. *Anderson,* 269 U.S. 4[illegible], 440, 441; *American National Co.* v. *United States,* 274 U.S. 99, 102, 103; *Brown* v. *Helvering,* 291 U.S. 193, 199; *Rouss* v. *Bowes* 30 F. (2d) 628, 629. That is the question here. *It is not altered by the fact that the claim of loss relates to an item of gross income which had accrued in the same year.* [Emphasis added.]

The reasoning which led this Court in *Spring City* to hold that a "loss" which had not been actually incurred during the taxable year did not warrant postponement of accrual of a related item of gross income applies with equal force to related income and "expense" items. Here, as in *Spring City Co.*, the question "is one of the deduction which may be taken according to the applicable statute," and that question "is not altered by the fact that the claim of loss [here, expense] relates to an item of gross income which had accrued in the same year." Treating the issue as one of deduction rather than as one affecting the accrual of gross income, it is clear that anticipated losses may not be deducted under Section 23(e) until they are in fact "sustained", and that similarly anticipated expenses may not be deducted under Section 23(a) until they are in fact "incurred." They may not be accounted for in advance by postponing the return of gross income items to which they "relate." See also *Guaranty Trust Co.* v. *Commissioner,* 303 U.S. 493; *Lucas* v. *American Code Co.,* 280 U.S. 445; *Brown* v. *Helvering,* 291 U.S. 193.

In *Brown* v. *Helvering, supra,* the Court held that a taxpayer filing his returns on the accrual basis was not entitled to deduct from gross income (insurance commissions) received in the taxable year an amount which his experience indicated would have to be refunded on account of policy cancellations, since his liability to repay was contingent, not fixed and absolute in that year. The Court stated (p. 199):

> Under the Revenue Acts taxable income is computed for annual periods. If the accounts are kept on the accrual basis the income is to be accounted for in the year in which it is realized even if not then actually received; and the deductions are to be taken in the year in which the deductible items are incurred. * * *

The Studio in effect is here attempting to accomplish what this Court in *Brown* held was not permissible—to offset against gross income for the taxable year an estimated amount of expense liabilities not yet incurred. While it seeks to exclude ("de-

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