Article brief

Finance

Future Contract Loss Introduction A future contract is a contract between two individuals or parties to sellor buy assets for a cost fixed upon today with payment and delivery occurring at a future date. In this case, according to Clark Ghosh (2004), contracts are negotiated and agreed upon at future exchanges that act as a trading place between the seller and the buyer.

Haig Simmons case

Haig Simmons engaged herself in a future contract that made her incur a loss due to fluctuations in price of the commodity. I this case, the loss incurred by Haig Simmons can only be classified as an ordinary loss. Similar observation was reached by the USA supreme in the case Corn Products Refining Co. v. Commissioner, 350 U. S. 46 (1955). According to the ruling, capital assets include the property held by the taxpayer but does not include goods in trade or assets held by the taxpayer for the primary purpose of resale. It is, therefore, viable to conclude that Haig Simmons did not incur a loss on capital and hence the loss is categorized as ordinary.

The Supreme Court held the verdict of the Court of Appeals and the Tax Court that the petitioner's future business transactions are designed to caution its manufacturing business against the price increase that would reduce the profit margin. In this case, Anderson (2001) declares that the loss emanating from such transactions should be included as an income when determining the tax payable.

Similar ruling was made on March 7, 1988 in the case Arkansas Best Corp. v. Commissioner, 485 U. S. 212 (1988). In the case, the court noted that future transaction had a consistent trend of giving rise to huge gains that went untaxed. The court therefore held that the petitioner should be slapped with a tax burden with the future loss as part of taxable income.

In conclusion, losses emanating from future contracts form a part of the loss on inventory and hence the amount in the transaction should be incorporated as an income to the enterprise but not as a loss on capital.

REFERENCES

Anderson, N. (2001). H & R Block 2002 income tax guide. New York: Simon & Schuster.

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Clark, E., & Ghosh, D. (2004). Arbitrage, hedging, and speculation the foreign exchange market. Westport, Conn.: Praeger