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Rev. Rul. 67-12

Advice has been requested whether ordinary and necessary business expenses, incurred in prior years and paid in a year subsequent to the termination of the business by an individual taxpayer, using the cash receipts and disbursements method of accounting, may be deducted under section 162 of the Internal Revenue Code of 1954.

The taxpayer operated a business as a sole proprietor. He had incurred debts for ordinary and necessary business expenses which he was unable to pay because of financial problems, and had entered into an agreement with his creditors under which he would pay his debts when he was able to obtain funds. He then discontinued his business.

In a year subsequent to the termination of his business, the taxpayer paid the debts he had incurred while carrying on the business.

Section 162 of the Code provides, in part, for the deduction of all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.

Section 461(a) of the Code sets forth the general rule that the amount of any deduction or credit allowable shall be taken for the taxable year which is the proper taxable year under the method of accounting used in computing taxable income.

Section 1.461-1(a)(1) of the Income Tax Regulations provides that under the cash receipts and disbursements method of accounting, amounts representing allowable deductions shall, as a general rule, be taken into account for the taxable year in which paid.

In the instant case, expenses represented by the debts would have been deductible under section 162 of the Code had they been paid by the taxpayer while he was still carrying on the business. The fact that the business has been discontinued does not prevent the deduction of expenses otherwise allowable to an individual taxpayer using the cash receipts and disbursements method of accounting. See *Waters F. Burrows v. Commissioner*, 38 B.T.A. 236 (1938), acquiescence, C.B. 1938-2, 5. Also, compare I.T. 4071, C.B. 1952-1, 148.

Accordingly, the ordinary and necessary expenses, incurred in a trade or business in prior years and paid in the current taxable year, by an individual taxpayer, using the cash receipts and disbursements method of accounting, are deductible under section 162 of the Code, even though the business has been discontinued.