C.E. Ingram v. Commissioner, 42 B.T.A. 546 (1940)

Income is considered constructively received when it is set aside for a taxpayer, made immediately available, and the taxpayer's failure to receive it in cash is due to their own volition.

Summary

The case addresses whether the purchase of an annuity contract by a company at the direction of its president, using funds allocated as additional compensation, constitutes taxable income constructively received by the president. The Board of Tax Appeals held that the president constructively received the income because he had unfettered command over the funds and directed their use, distinguishing it from a situation where the taxpayer refuses compensation altogether. This case clarifies the application of the constructive receipt doctrine when a taxpayer directs payment to a third party for their benefit.

Facts

The Procter & Gamble Co. established a five-year plan to provide additional compensation to executives and employees. The company president, C.E. Ingram, was entitled to a portion of this fund. In 1938, Ingram directed the company to use $50,000 of his allocated compensation to purchase a single premium retirement annuity contract, which was then delivered to him. The company's resolution for additional compensation did not mention annuity contracts; this decision was solely Ingram's.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Ingram's 1938 income tax, arguing that the $50,000 used to purchase the annuity was taxable income. Ingram petitioned the Board of Tax Appeals to redetermine the deficiency. The Board upheld the Commissioner's determination.

Issue(s)

Whether the purchase of an annuity contract by a company, at the direction of its president using funds allocated as compensation, constitutes taxable income constructively received by the president, even though he did not receive the cash directly.

Holding

Yes, because Ingram had unfettered command over the funds allocated to him as compensation and directed the company to use those funds to purchase an annuity contract for his benefit. This constitutes constructive receipt of income.

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Court’s Reasoning

The Board of Tax Appeals relied on the doctrine of constructive receipt, stating that income is taxable when it is subject to a person’s “unfettered command and that he is free to enjoy at his own option.” The court emphasized that Ingram had the right to receive the $50,000 in cash but instead directed the company to purchase the annuity. The Board distinguished this case from *A.P. Giannini, 42 B.T.A. 546*, where the taxpayer refused compensation and did not direct its disposition. Here, Ingram actively directed the funds to be used for his benefit. The court noted, “In the instant case the $50,000 additional compensation was not only at petitioner’s unfettered command, but he saw fit to enjoy it by directing Procter & Gamble to purchase for him an annuity contract costing $50,000. It seems to us that this income was, at his own direction, just as effectively used for petitioner’s benefit as if it had been paid over to him and he had purchased directly the annuity policy from the insurance company.”

Practical Implications

This case reinforces that taxpayers cannot avoid income tax by directing their employer to pay their compensation to a third party for their benefit. The key is whether the taxpayer had control over the funds and the freedom to choose how they were used. This decision clarifies that directing funds toward a specific investment or purchase still constitutes constructive receipt, even if the taxpayer never physically possesses the cash. Later cases have cited *Ingram* to support the principle that control and direction of funds are equivalent to actual receipt for tax purposes. It serves as a warning to executives and highly compensated employees who attempt to defer or avoid income tax by redirecting compensation payments.

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