T.C. Memo. 1950-91

For cash-basis taxpayers, a Commodity Credit Corporation loan is considered income in the taxable year it is actually received, not when the loan is approved or the check is mailed.

Summary

Thompson v. Commissioner addresses the issue of when a loan from the Commodity Credit Corporation (CCC) should be included as income for a cash-basis taxpayer who elected to treat such loans as income under Section 123(a) of the Internal Revenue Code. The court held that the loan was received in 1939, the year the check was received, and not in 1938, when the loan was approved and the check was mailed. The court emphasized that for cash-basis taxpayers, income is recognized when actually or constructively received.

Facts

A partnership engaged in hop farming obtained a loan from the Commodity Credit Corporation (CCC) in connection with its hop crop. The loan application was approved on December 30, 1938, and the CCC mailed a check for the loan amount on the same day. The partnership's agent received the check on January 3, 1939. The CCC charged interest on the loan from December 30, 1938. The partnership elected to treat the CCC loan as income under Section 123(a) of the Internal Revenue Code and argued that the loan should be included in their 1938 income. Both the partnership and the individual partner (Thompson) reported income on the cash basis.

Procedural History

The Commissioner determined that the loan was received in 1939 and assessed a deficiency. The taxpayer, Thompson, petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether a loan from the Commodity Credit Corporation (CCC) should be included as income in the taxable year when the loan was approved and the check was mailed, or in the taxable year when the check was actually received by a cash-basis taxpayer who has elected to treat such loans as income?

Holding

No, because for a cash-basis taxpayer, income is recognized when it is actually or constructively received. The loan proceeds were not received until 1939.

Court's Reasoning

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The court emphasized that Section 123(a) of the Internal Revenue Code explicitly states that amounts received as loans shall be included in gross income for the taxable year "in which received." Because the partnership reported income on the cash basis, the term "received" must be given effect in that context. The court found that neither the partnership nor its agent actually or constructively received the loan amount in 1938. While the loan was approved and the check was mailed on December 30, 1938, the check was not received until January 3, 1939. The court distinguished this case from situations where a taxpayer deliberately turns their back on income, stating, "there is nothing to indicate that either the partnership, its agent, or the petitioner knew the loan had been granted until the check was received." Citing Avery v. Commissioner, the court concluded that under these circumstances, there was no constructive receipt of the loan in 1938. The court also rejected the petitioner's argument that the transaction should be treated as a sale of hops, because even under that scenario, a cash-basis taxpayer would not report the gain until the purchase price is received.

Practical Implications

This case clarifies the timing of income recognition for cash-basis taxpayers who elect to treat CCC loans as income. It reinforces the principle that cash-basis taxpayers recognize income when they actually or constructively receive it, regardless of when the payment is approved or sent. This ruling is important for agricultural businesses and individuals who utilize CCC loans, providing clarity on when they must report such loans as income. It also demonstrates that even when interest accrues from an earlier date, that date does not automatically trigger income recognition for cash-basis taxpayers. This case highlights the importance of understanding the taxpayer's accounting method (cash vs. accrual) when determining the proper year for income inclusion. Later cases would apply similar reasoning when determining income inclusion for other types of government subsidies and payments.

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