8 T.C. 407 (1947)

A taxpayer using the cash method of accounting can only deduct expenses actually paid during the tax year, not amounts credited to another party that could have been paid but were not.

Summary

Vander Poel, Francis & Company, Inc., a cash-basis taxpayer, sought to deduct the full amount of salaries voted to its officers, even though a portion remained unpaid but credited to their accounts. The Tax Court upheld the Commissioner's disallowance of the unpaid portion, emphasizing that cash-basis taxpayers can only deduct expenses actually paid. While the officers constructively received the full salary (and paid taxes on it), the court found that constructive payment does not automatically follow from constructive receipt for deduction purposes.

Facts

Vander Poel, Francis & Company, Inc. was a corporation that used the cash receipts and disbursements method of accounting. In 1942, the corporation's board of directors voted salaries for its president, S. Oakley Vander Poel, and vice president/treasurer, James W. Francis. These salaries were credited to the officers' accounts on the corporation's books, but the full amounts were not actually paid out in cash during the year. Both officers had the authority to sign checks on the company's bank accounts. The company's assets exceeded its liabilities, and its bank balances were sufficient to cover the unpaid salaries.

Procedural History

The Commissioner of Internal Revenue disallowed a portion of the corporation's claimed deduction for officer salaries. The corporation petitioned the Tax Court, arguing that it should be allowed to deduct the full amount of the salaries under the doctrine of constructive payment.

Issue(s)

Whether a corporation that keeps its books and files its income tax returns on the cash basis is entitled to deduct the full amount of salaries voted to its officers and unconditionally credited to their accounts, notwithstanding it did not actually pay the full amount of these salaries in cash or other property during the tax year?

Holding

No, because a taxpayer using the cash method can only deduct expenses actually paid during the year. Constructive payment does not automatically follow from constructive receipt for deduction purposes.

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Court’s Reasoning

The Tax Court emphasized the distinction between

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