10 T.C. 171 (1948)

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The Commissioner of Internal Revenue has broad discretion to determine the accounting method that clearly reflects a taxpayer's income for tax purposes, even if the taxpayer has used a different method consistently, and can require adjustments to income to reflect a change to a more accurate method.

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Summary

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C.L. Carver, a printing business owner, changed his bookkeeping method to the accrual basis in 1925 but continued to file income tax returns using the cash basis. In 1941, the Commissioner recomputed Carver's income using the accrual basis and adjusted his income to account for the change, resulting in a significant increase in taxable income. The Tax Court upheld the Commissioner's determination, emphasizing the Commissioner's broad discretion to ensure that the method of accounting clearly reflects income, regardless of past acceptance of a different method.

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Facts

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C.L. Carver owned and operated the Caxton Press printing business since 1909. Initially, he kept his business records on the cash receipts and disbursements basis. In 1925, Carver changed his bookkeeping to the accrual basis, a method developed by the printing industry. Despite this change, Carver continued to file income tax returns on the cash basis, except for including paper inventory in calculating the cost of goods sold. The Commissioner determined that Carver's books were kept on the accrual basis in 1941 and for many prior years, making the accrual method more accurate for reflecting his income.

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Procedural History

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The Commissioner assessed a deficiency against Carver for the 1941 tax year, based on recomputing his income using the accrual method. Carver challenged the Commissioner's adjustment in the Tax Court. The Tax Court upheld the Commissioner's determination, finding no clear abuse of discretion.

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Issue(s)

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Whether the Commissioner erred in computing the net income of petitioner's printing business for 1941 on the accrual basis and in making adjustments necessary to reflect income accurately when the taxpayer had changed his method of accounting in his books to the accrual basis in 1925, but continued to file returns on the cash basis.

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Holding

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Yes, because the Commissioner has broad discretion under Section 41 of the Internal Revenue Code to determine the accounting method that clearly reflects income, and the taxpayer's continued use of the cash basis, despite keeping books on the accrual basis, did not clearly reflect his income.

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Court's Reasoning

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The Tax Court emphasized that Section 41 of the Internal Revenue Code grants the Commissioner the authority to determine the method of accounting that clearly reflects income. The court cited *William Hardy, Inc. v. Commissioner*, noting that the Commissioner's discretion is broad and will only be overturned if clearly abused. The court found that Carver's books were maintained on an accrual basis, indicating that this method more accurately reflected his income. The court rejected Carver's argument that the adjustments should have been made in 1925 when he changed his bookkeeping method, stating,

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