***Long Poultry Farms, Inc. v. Commissioner, 249 F.2d 726 (4th Cir. 1957)***

A taxpayer using the accrual method of accounting must include patronage dividends in income in the year the right to receive them becomes fixed and the amount is reasonably ascertainable, even if payment is deferred.

**Summary**

Long Poultry Farms, Inc. (Taxpayer), an accrual basis taxpayer, received revolving fund certificates from a cooperative association as patronage dividends. The Tax Court held that these certificates were taxable in the year received. The Fourth Circuit affirmed, holding that the right to receive the dividends became fixed and the amount reasonably ascertainable when the certificates were issued, despite deferred payment. This case clarifies the timing of income recognition for accrual basis taxpayers receiving patronage dividends.

**Facts**

Long Poultry Farms, Inc., was engaged in the business of raising and selling poultry. It was a member of the Farmers Cooperative Exchange, Inc. (FCX), a cooperative purchasing association. FCX distributed its earnings to its members in the form of revolving fund certificates, reflecting patronage dividends based on the volume of purchases made by each member. The Taxpayer used the accrual method of accounting. The revolving fund certificates were redeemable at the discretion of FCX's directors and bore no fixed maturity date.

**Procedural History**

The Commissioner of Internal Revenue determined that the face amount of the revolving fund certificates received by the Taxpayer in 1952 and 1953 constituted taxable income in those years. The Taxpayer challenged this determination in the Tax Court. The Tax Court upheld the Commissioner's determination. The Taxpayer appealed to the Fourth Circuit Court of Appeals.

**Issue(s)**

Whether an accrual basis taxpayer is required to include patronage dividends, represented by revolving fund certificates, in taxable income in the year the certificates are received, even though the certificates are redeemable at the discretion of the issuing cooperative and have no fixed maturity date.

**Holding**

Yes, because the taxpayer's right to receive the patronage dividends became fixed and the amount was reasonably ascertainable in the year the revolving fund certificates were issued.

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## Court’s Reasoning

The Fourth Circuit affirmed the Tax Court’s decision. The court reasoned that under the accrual method of accounting, income is taxable when all events have occurred that fix the right to receive the income and the amount can be determined with reasonable accuracy. The court emphasized that the Taxpayer’s right to receive the patronage dividends was fixed when the revolving fund certificates were issued. The amount was also reasonably ascertainable at that time. The court distinguished cases involving contingencies or uncertainties about the right to receive income. The court noted that the discretion of FCX’s directors regarding the redemption of the certificates did not create a sufficient contingency to prevent accrual, stating: “The essential right to receive payment existed when the certificates were issued; only the time of payment was uncertain.” The court cited *Commissioner v. Hansen*, 360 U.S. 446 (1959), emphasizing the importance of consistent treatment of cooperative distributions. The court also considered the business realities of cooperative operations, noting that the revolving fund mechanism is a standard practice and that members generally expect to receive the face value of the certificates over time.

## Practical Implications

This case provides guidance on the tax treatment of patronage dividends for accrual basis taxpayers. It clarifies that the issuance of revolving fund certificates, or similar instruments representing patronage allocations, generally triggers income recognition, even if actual payment is deferred and subject to the discretion of the cooperative’s directors. This rule promotes consistency in the tax treatment of cooperative earnings and helps ensure that accrual basis taxpayers accurately reflect their economic income. Attorneys advising cooperatives and their members should carefully consider this case when structuring patronage dividend programs and advising clients on their tax obligations. Subsequent cases have distinguished *Long Poultry Farms* where significant contingencies existed regarding the ultimate payment of the patronage dividends or where the cooperative’s financial condition raised substantial doubts about its ability to redeem the certificates.

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