25 T.C. 1283 (1956)

Under the accrual method of accounting, income is recognized when the right to receive it becomes fixed, even if the exact amount is not yet known.

Summary

Capital Engineering, an accrual-basis taxpayer, was a subcontractor on a construction project spanning two fiscal years. The company made regular billings based on estimated costs. Upon completion, Capital Engineering attempted to reallocate profits from the second year to the first, claiming it more accurately reflected income. The Tax Court disagreed, holding that the company should accrue income based on the billings made in each fiscal year, as the right to receive payment was established when the invoices were issued. The court emphasized that the established billing practices reflected the mutual understanding between the parties and thus, the income should be recognized at the time of billing.

Facts

Capital Engineering, an accrual-basis taxpayer, contracted to perform concrete form construction for a high school project. The contract did not specify a payment schedule, but Capital Engineering's president testified that monthly billings were customary. The initial billing for fiscal year 1949 totaled $16,665. In fiscal year 1950, the job was completed, and the company billed the remaining $44,935. Capital Engineering initially reported income based on the billings. Later, upon job completion, the company attempted to amend the 1949 return to include a larger portion of the total profit by reallocating it based on costs incurred during each period. The Commissioner disallowed the amended allocation, and determined a deficiency based on the original billings.

Procedural History

Capital Engineering filed income tax returns for fiscal years 1949 and 1950. After the job's completion, the company amended its 1949 return, reallocating profits. The Commissioner of Internal Revenue challenged the amended return, determining a deficiency for fiscal year 1950 based on the billings made in that year. The Tax Court reviewed the case.

Issue(s)

Whether an accrual-basis taxpayer, upon completion of a construction job spanning multiple fiscal years, may reallocate profits between those years to more accurately reflect income, despite the fact that the taxpayer had made regular billings during the course of the project.

Holding

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No, because the company's right to receive payment became fixed when it submitted its invoices, and therefore income should be recognized in the year of billing.

Court's Reasoning

The court relied on the accrual method of accounting, where income is recognized when a taxpayer's right to receive it is established, and the amount is determinable. The court cited *Security Flour Mills Co. v. Commissioner* and *Spring City Foundry Co. v. Commissioner* to support this principle. The court emphasized that Capital Engineering's practice of submitting monthly billings indicated the parties' understanding of payment terms. It found that the taxpayer's right to payment

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