***Dingle-Clark Co. v. Commissioner*, 26 T.C. 782 (1956)**

Under the accrual method of accounting, income is recognized when all events have occurred that fix the right to receive the income and the amount can be determined with reasonable accuracy, even if the actual receipt is delayed.

Summary

The Dingle-Clark Company (Dingle-Clark), an accrual-basis taxpayer, contracted with the National Tube Company for electrical construction work. The contract provided for reimbursement of costs plus a percentage fee, with a portion of the fee retained until project completion. The IRS determined deficiencies in Dingle-Clark's income tax for 1950 and 1951, alleging that income from the contract was improperly recognized. The Tax Court addressed whether certain portions of the fee and bonus, attributable to work completed by the end of 1949, were properly included in Dingle-Clark's 1950 income. The court held that the invoiced portion of the fee retained by National Tube and the uninvoiced portion of the base fee and bonus, all attributable to work completed through December 31, 1949, were accruable in a prior period rather than in 1950.

Facts

- Dingle-Clark, an electrical contractor, entered into a contract with National Tube Company in May 1947 for electrical construction work on a new mill.
- The contract stipulated reimbursement of costs plus a 7.5% base fee.
- Payments were made periodically for labor and materials, with a portion of the fee retained until completion.
- The contract also included bonus or penalty provisions based on the difference between the estimated and actual costs.
- Dingle-Clark used the accrual method of accounting.
- By the end of 1949, most of the work was complete, and the work had been tested.
- Dingle-Clark's chief engineer analyzed the project's progress and estimated that a substantial bonus would be earned.
- Dingle-Clark's accounting practice was to accrue income when billed, except for amounts retained until contract completion, which were deferred.
- National Tube approved the analysis by Purchase Order Change No. 20 on September 29, 1950, and the contract was formally approved on July 20, 1950.
- Dingle-Clark included the retained fees, uninvoiced fee, and bonus in its 1950 income, as per the IRS position.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Dingle-Clark's income tax for 1950 and 1951. Dingle-Clark claimed overpayments for the same years. The case was brought before the United States Tax Court to determine

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whether the income from the contract was properly recognized in 1950.

Issue(s)

1. Whether the Commissioner correctly included $79,288.85 in Dingle-Clark's income for 1950, representing the portion of the base fee billed in prior years but not payable until 1950.
2. Whether any portion of the base fee and bonus reported by Dingle-Clark in 1950 were improperly included, because they were accruable in a prior year.

Holding

1. No, because all events had occurred to fix Dingle-Clark's right to receive this amount, and the amount was determinable.
2. Yes, because a portion of the fee and bonus attributable to work completed by December 31, 1949, were accruable in a prior year.

Court's Reasoning

The court applied the accrual method of accounting, which requires income recognition when all events have occurred that fix the right to receive the income and the amount can be determined with reasonable certainty. The court found that by the end of 1949, the work was substantially complete, and the quality of the work was not in question. Therefore, only the contingency of potential errors in performance or catastrophes remained, contingencies typical of all construction projects. The court determined that, as of January 1, 1950, the $79,288.85 was not subject to any substantial contingencies preventing its ultimate receipt. The court also determined that a substantial portion of the base fee and bonus attributable to work completed by December 31, 1949, was determinable and should have been recognized in 1949 rather than in 1950. The court referenced that "the right to receive and not the actual receipt that is determinative."

The court distinguished the case from *United States v. Harmon* and *Charles F. Dally*, both of which involved sums retained under government construction contracts where the right to the retainage was dependent on further events like final audits or formal acceptance. Those further contingencies did not exist in this case. The court noted, "the question of whether an accrual is proper cannot be determined by reference to all of the theoretically possible events which might affect the ultimate receipt of income."

Practical Implications

This case highlights the importance of the

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