***Ebner v. Commissioner*, 26 T.C. 962 (1956)**

The doctrine of constructive receipt dictates that income is taxable when a taxpayer has unfettered control over it, even if they haven't physically received it.

Summary

The case concerns the timing of income for installment sale reporting purposes under the Internal Revenue Code. The taxpayer, Ebner, sold stock in 1947 and sought to report the gain on the installment basis. The IRS contended that Ebner constructively received more than 30% of the sale price in 1947, which would disqualify her from using the installment method. The Tax Court held that Ebner did not constructively receive the additional funds until 1948, allowing her to use the installment method, as the evidence showed the agreement for those funds occurred after the initial payment. The court focused on the timing of the agreement regarding an offset against the sale proceeds, determining that the transaction occurred in January 1948, not December 1947, as the IRS asserted, and that it did not affect the initial payments made in 1947.

Facts

In December 1947, Ebner, her children, and her deceased husband's estate sold stock back to the corporation. The corporation paid $50,000 to their attorney, which was to be distributed, in part, to Ebner. The contract specified Ebner's share of the initial payment was $24,791.85. The IRS argued that the corporation offset the $11,000 debt owed to the corporation by Ebner's son against a portion of the $50,000 due to the son. The IRS considered this $11,000 as additional payment constructively received by Ebner in 1947. The payment was deposited in a special account and distributed to each seller in January 1948. Evidence indicated the offset agreement occurred on January 9, 1948, not December 30, 1947, as the IRS contended, and that the $11,000 was not actually available for Ebner to use in 1947.

Procedural History

The case was heard by the United States Tax Court. The Commissioner determined a deficiency in Ebner's income tax, arguing she didn't qualify for installment sale reporting. Ebner challenged the IRS's determination in the Tax Court. The Tax Court found in favor of the taxpayer and determined there was no deficiency.

Issue(s)

1. Whether Ebner constructively received more than 30% of the selling price in 1947, thereby disqualifying her from installment sale reporting.

Holding

1. No, because the court found the $11,000 debt offset agreement took place in

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January 1948 and the taxpayer did not have constructive receipt of the funds in 1947.

Court's Reasoning

The court focused on the timing of the transaction and the legal concept of constructive receipt. The court determined that although the $50,000 was deposited in a special account on December 30, 1947, Ebner did not constructively receive the additional $11,000 until January 9, 1948, because the agreement to offset her son's debt against his stock sale proceeds occurred on that date. The court examined the evidence, including the testimony of Ebner's son and attorney, as well as the canceled note and receipt, all of which supported the January 1948 date. The court found the corporation's books were not closed until sometime in 1948, supporting the January 9, 1948 date. The court emphasized that the critical question was whether Ebner had the right to receive the additional funds in 1947. Since the offset agreement was not made until 1948, and the original agreement specified a percentage of less than 30% to be paid in 1947, the court held that Ebner was entitled to use the installment method. The court said, "We do not think, however, that petitioner is to be regarded as having received, in 1947, more than the $24,791.85 share allocated to her in the original contract of sale."

Practical Implications

This case underscores the critical importance of precise timing in tax planning, particularly regarding constructive receipt and installment sales. Taxpayers must carefully document the dates of agreements and transactions to avoid the risk of the IRS recharacterizing the timing of income recognition. The ruling highlights that income is taxable not when received, but when the right to receive is established, and the taxpayer has unfettered control. When structuring sales or other income-generating transactions, attorneys should advise their clients to: 1) Document all transactions meticulously, 2) Clarify the timing of payments, 3) Ensure the taxpayer's right to funds is clear. Later cases involving constructive receipt will often cite this case for the proposition that the right to control funds, and not the physical receipt, triggers taxation. Installment sales, and particularly those including family members or related parties, require careful planning to avoid unfavorable tax consequences. Moreover, practitioners and taxpayers must carefully note how the doctrine of constructive receipt may interact with other areas of tax law, such as deferred compensation or distributions from retirement accounts.

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