31 T.C. 1064 (1959)

A taxpayer does not constructively receive income when its access to the funds is subject to substantial limitations or restrictions, even if the taxpayer has some control over the timing of the receipt.

Summary

The Estate of Harry Snider contested a tax deficiency, arguing that the decedent did not constructively receive income in 1950. Snider held a life annuity contract with Equitable Life. Before the contract matured, he elected to surrender it for its cash value and have the proceeds paid in monthly installments, subject to Equitable's right to delay payment for up to six months. The Commissioner argued that Snider constructively received the entire cash surrender value in 1950. The Tax Court held for Snider, finding that the six-month delay constituted a substantial limitation preventing constructive receipt. The court emphasized that constructive receipt requires unfettered access to the funds.

Facts

In 1932, Harry Snider purchased a life annuity contract from Equitable Life. The contract was to mature in 1953. In 1950, prior to maturity, Snider elected to surrender the contract and have the cash surrender value applied under an installment option. The new agreement specified monthly payments of $1,000, plus interest, until the principal was exhausted. Equitable could defer withdrawals for up to six months. The Commissioner determined a tax deficiency, arguing that Snider constructively received the full cash surrender value of the policy in 1950.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency against the Estate. The Estate contested this determination in the United States Tax Court. The Tax Court ruled in favor of the Estate, finding that the decedent did not constructively receive the income. The Commissioner appealed the Tax Court's decision.

Issue(s)

1. Whether Harry Snider constructively received taxable income in 1950 upon electing to receive the cash surrender value of his annuity contract in installments, which were subject to a possible six-month delay?

Holding

1. No, because the six-month delay provision constituted a substantial limitation on Snider's ability to access the funds, preventing constructive receipt.

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Court’s Reasoning

The court focused on the concept of constructive receipt, which dictates that income is taxable when it is credited or set apart for the taxpayer without substantial limitations or restrictions. The court referenced the regulation stating that the income must be credited or set apart to the taxpayer “*without any substantial limitation or restriction as to the time or manner of payment or condition upon which payment is to be made*.

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