White v. Commissioner, 61 T. C. 763 (1974)

A subchapter S corporation may deduct accrued bonuses credited to its sole stockholder within 2 1/2 months after the close of its taxable year, even if the stockholder has not yet received actual payment.

Summary

Robert White, sole stockholder and president of a subchapter S corporation, accrued a year-end bonus of $20,800 in 1966 and 1967. The corporation credited the bonus to White's account, but he did not receive actual payment until the following year. The Tax Court held that White constructively received the bonus within 2 1/2 months after the close of the corporation's taxable year, allowing the corporation to deduct the bonus. This ruling clarified that constructive receipt satisfies the payment requirements of section 267 for subchapter S corporations, despite arguments that actual payment should be required.

Facts

Robert White was the sole stockholder and president of Gardner's Village, Inc. , a subchapter S corporation using the accrual method of accounting. In 1964, the corporation adopted a policy of paying White a weekly salary and a year-end bonus of $20,800, credited to his account at year-end. For the years 1966 and 1967, the bonuses were accrued but not paid until September 1967 and May 1968, respectively. White reported the bonuses on his income tax return in the year he received payment. The corporation had sufficient cash to cover the bonuses at all relevant times.

Procedural History

The Commissioner disallowed the corporation's deduction for the bonuses, arguing they were not paid within 2 1/2 months after the close of the taxable year as required by section 267. White petitioned the U. S. Tax Court, which heard the case and rendered its decision in 1974.

Issue(s)

1. Whether the bonuses accrued by the subchapter S corporation were constructively received by White within 2 1/2 months after the close of the corporation's taxable year, allowing the corporation to deduct the bonuses under section 267?

Holding

1. Yes, because the bonuses were credited to White's account and he had unrestricted power to withdraw them, satisfying the constructive receipt doctrine within the required timeframe.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court applied the constructive receipt doctrine, as defined in section 1. 451-2(a) of the Income Tax Regulations, which states that income is constructively received when it is credited to the taxpayer’s account or made available for withdrawal. The court found that the bonuses were credited to White’s account and he had the ability to draw upon them at any time after the close of the corporation’s taxable year. The court rejected the Commissioner’s argument that actual payment should be required for subchapter S corporations, noting that section 267 requires only that the amount be includable in the payee’s income within the specified period. The court distinguished cases involving actual distributions under sections 1373 and 1375(f), which do not apply to the constructive receipt doctrine under section 267.

Practical Implications

This decision clarifies that subchapter S corporations may deduct accrued bonuses credited to a stockholder’s account within 2 1/2 months after the close of the taxable year, even if the stockholder has not yet received actual payment. Attorneys advising subchapter S corporations should ensure that accrued bonuses are properly credited to the stockholder’s account and that the stockholder has the ability to withdraw the funds within the required timeframe. This ruling may affect how subchapter S corporations structure compensation arrangements and plan for tax deductions. Later cases have applied this principle, confirming that constructive receipt satisfies the payment requirements of section 267 for subchapter S corporations.

© 2025 SCOTUSreports.com. All rights reserved.