



Financial, Legal & Tax Advisory

Published by The Center for Financial, Legal & Tax Planning, P.C.



Roman A. Basi, President of The Center, is an Attorney, CPA, Real Estate Broker, and Title Insurance Agent. Roman speaks and advises The Center's clientele on such matters as Business Law, Succession, Estate & Tax Planning, and Real Estate.



Dr. Bart A. Basi, Senior Advisor of the Center for Financial, Legal & Tax Planning, P.C., is an expert on closely-held companies, an attorney, and CPA. He is a member of the American Bar Association's Tax Committee on Closely-Held Businesses and Business Planning.

Constructive Receipt

Constructive receipt is an accounting term that refers to a situation in which a business or individual is treated as having received income, regardless of whether they have the funds in hand or not. Thus, even when a taxpayer has not obtained possession of the income, the taxpayer is generally subject to tax as though they received possession of the income when the income is set apart for the taxpayer, credited to the taxpayer's account, or made available to the taxpayer. Sounds confusing, right? This advisory will go in-depth to understand the doctrine of constructive receipt and why it is important.

The purpose of constructive receipt is to ensure that taxpayers pay income tax and can't delay or avoid those taxes by not taking possession of income. For an individual, they are considered to be in constructive receipt of income anytime they can control or utilize the funds. This can apply when funds have been credited to their account, even if they do not have direct possession of the funds, or if it is guaranteed that they will have the ability to draw upon the funds in the future. When the determination is made that the individual is in constructive receipt of income, they cannot delay paying taxes on that income even if it is not utilized.

Looking at businesses, it is important to understand that constructive receipt only applies to those who use the cash-basis method of accounting. A business is determined to be in constructive receipt of income if the business can use the money without restriction or if it has been deposited into the business's account. Along with this, the receipt of funds by an agent of the business is considered to be received by its principal.

Let's look at an example for an individual. An employee receives an end-of-the-year bonus check on December 29, 2024. With the holidays around, they are busy and wait until January 3, 2025, to cash it. Even though they physically did not have the funds in their hands until January 3rd, you earned the income and had constructive receipt of it on December 29th, therefore making it taxable in 2024. A good example of constructive receipt for a business would be if you did work for a client on December 18, 2024. You bill them and then go out of town from December 19, 2024, through January 5, 2025.

While you are gone, you have your assistant act as an agent for you to collect any payments during that time. On December 24, 2024, the client delivers payment to the agent, who then gives it to you upon arrival on January 6, 2025. This income would be recognized in 2024, even though you did not have access to the funds until 2025. This is because your agent accepting the payment is the same as you receiving it, regardless of when it is in your possession and available to use.

While end-of-the-year tax planning can be tough, it is important to understand constructive receipt if you are an individual or are a business owner operating under cash-basis accounting. If you have any questions regarding the recognition of income regarding constructive receipt or are interested in talking to a tax professional to help you reach your goals, contact the professionals at The Center at (618) 997-3436 or visit our website at taxplanning.com for more information.

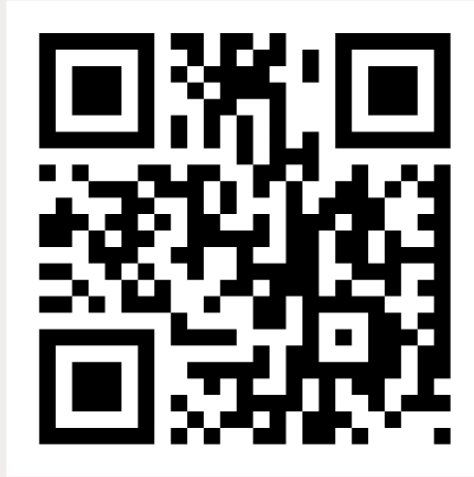
Basi, Basi & Associates at The Center for Financial, Legal, & Tax Planning, P.C.

Mergers & Acquisitions | Retirement and Estate Planning | Business Valuation | Tax Aspects of Business Decision
Accounting Service | Business Succession Planning | Strategic Planning and Negotiation for Buying or Selling a Business
4501 W DeYoung St., Suite 200 | Marion, IL 62959 Phone: (618) 997-3436 | Fax: (618) 997-8370 | www.taxplanning.com

**BASI, BASI & ASSOCIATES AT THE CENTER FOR
FINANCIAL, LEGAL & TAX PLANNING, P.C.**

TO VIEW OUR WEBSITE

SCAN ME!



INFO@TAXPLANNING.COM



CHECK OUR WEBSITE ONLINE, OPEN YOUR
PHONE CAMERA AND SCAN THIS QR CODE



4501 W DEYOUNG ST.,
SUITE 200 | MARION, IL
62959



618-997-3436



WWW.TAXPLANNING.COM



WWW.FACEBOOK.COM/TAXPLANNINGATTHECENTER



WWW.LINKEDIN.COM/COMPANY/BASIBASIASSOCIATES/



TWITTER.COM/_TAXPLANNING



WWW.INSTAGRAM.COM/BASIBASIANDASSOCIATES/
