Biz Facts

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Constructive Receipt

What is constructive receipt?

For federal income tax purposes, the doctrine of constructive receipt is used to determine when a cash-basis taxpayer has received gross income. You have constructive receipt of income when an amount is credited to your account or made available to you without restriction.

Unlike actual receipt, constructive receipt does not require physical possession of the item of income in question. If you authorize someone to be your agent and receive income for you, you are treated as having received it when your agent received it.

Other Examples Include:

Checks. Receipt of a valid check by the end of the tax year is constructive receipt of income in that year, even if you cannot cash or deposit the check until the following year.

Debts paid by another person or canceled. If your debts are paid by another person or are canceled by your creditors, you may have to report part or all of this debt relief as income. If you receive income in this way, you constructively receive the income when the debt is canceled or paid.

Repayment of income. If you include an amount in income and in a later year you have to repay all or part of it, you can usually deduct the repayment in the year in which you make it. If the amount you repay is over $3,000, a special rule applies.

Employee Pay and W-2 income*.* Employee income is constructively received in the year a valid check is issued, even if it has not been picked up or cashed by the employee until the next year.

Credit Cards. If you purchase a computer on a company credit card and put it into use, you are considered to have constructively received the asset, even though the credit card will not be paid until the following year.