

accrual method of accounting for taxable years preceding 1987). Such taxpayers may automatically change their method of accounting to the non-accrual-experience method under the provisions of this paragraph (h)(3), for their taxable year beginning in 1987, if they otherwise qualify under the provisions of this section for the use of such method. Taxpayers changing to the nonaccrual-experience method for their taxable year beginning in 1987 shall complete and file a current Form 3115. The Form 3115 shall be filed no later than the due date (including extension) of the taxpayer's federal income tax return for the year of change and shall be attached to that return. Moreover, the taxpayer shall type or legibly print the following statement at the top of page 1 of Form 3115: "Automatic Change to Nonaccrual Experience Method—Taxpayer not Required to Change Method of Accounting Under Section 448." The consent of the Commissioner to the change in method of accounting is granted to taxpayers changing to the nonaccrual-experience method for their taxable year beginning in 1987 under this paragraph (h)(3). With respect to taxpayers described in this paragraph (h)(3) who desire to change to the non-accrual-experience method for a taxable year beginning after December 31, 1987, such taxpayers shall submit an application for change in accounting method under the administrative procedures applicable to taxpayers at the time of change, including the applicable procedures regarding the time and place of filing the application for change in method. Taxpayers described in the preceding sentence include taxpayers who were required to change their method of accounting under section 448 for an earlier taxable year, but who did not change to the nonaccrual-experience method at that time.

(i) *Effective date.* This section applies to any taxable year beginning after December 31, 1986.

[T.D. 8143, 52 FR 22774, June 16, 1987, as amended by T.D. 8194, 53 FR 12513, Apr. 15, 1988]

TAXABLE YEAR FOR WHICH ITEMS OF
GROSS INCOME INCLUDED

§ 1.451-1 General rule for taxable year of inclusion.

(a) *General rule.* Gains, profits, and income are to be included in gross income for the taxable year in which they are actually or constructively received by the taxpayer unless includible for a different year in accordance with the taxpayer's method of accounting. Under an accrual method of accounting, income is includible in gross income when all the events have occurred which fix the right to receive such income and the amount thereof can be determined with reasonable accuracy. Therefore, under such a method of accounting if, in the case of compensation for services, no determination can be made as to the right to such compensation or the amount thereof until the services are completed, the amount of compensation is ordinarily income for the taxable year in which the determination can be made. Under the cash receipts and disbursements method of accounting, such an amount is includible in gross income when actually or constructively received. Where an amount of income is properly accrued on the basis of a reasonable estimate and the exact amount is subsequently determined, the difference, if any, shall be taken into account for the taxable year in which such determination is made. To the extent that income is attributable to the recovery of bad debts for accounts charged off in prior years, it is includible in the year of recovery in accordance with the taxpayer's method of accounting, regardless of the date when the amounts were charged off. For treatment of bad debts and bad debt recoveries, see sections 166 and 111 and the regulations thereunder. For rules relating to the treatment of amounts received in crop shares, see section 61 and the regulations thereunder. For the year in which a partner must include his distributive share of partnership income, see section 706(a) and paragraph (a) of § 1.706-1. If a taxpayer ascertains that an item should have been included in gross income in a

prior taxable year, he should, if within the period of limitation, file an amended return and pay any additional tax due. Similarly, if a taxpayer ascertains that an item was improperly included in gross income in a prior taxable year, he should, if within the period of limitation, file claim for credit or refund of any overpayment of tax arising therefrom.

(b) *Special rule in case of death.* (1) A taxpayer's taxable year ends on the date of his death. See section 443(a)(2) and paragraph (a)(2) of § 1.443-1. In computing taxable income for such year, there shall be included only amounts properly includible under the method of accounting used by the taxpayer. However, if the taxpayer used an accrual method of accounting, amounts accrued only by reason of his death shall not be included in computing taxable income for such year. If the taxpayer uses no regular accounting method, only amounts actually or constructively received during such year shall be included. (For rules relating to the inclusion of partnership income in the return of a decedent partner, see subchapter K, chapter 1 of the Code, and the regulations thereunder.)

(2) If the decedent owned an installment obligation the income from which was taxable to him under section 453, no income is required to be reported in the return of the decedent by reason of the transmission at death of such obligation. See section 453(d)(3). For the treatment of installment obligations acquired by the decedent's estate or by any person by bequest, devise, or inheritance from the decedent, see section 691(a)(4) and the regulations thereunder.

(c) *Special rule for employee tips.* Tips reported by an employee to his employer in a written statement furnished to the employer pursuant to section 6053(a) shall be included in gross income of the employee for the taxable year in which the written statement is furnished the employer. For provisions relating to the reporting of tips by an employee to his employer, see section 6053 and § 31.6053-1 of this chapter (Employment Tax Regulations).

(d) *Special rule for ratable inclusion of original issue discount.* For ratable in-

clusion of original issue discount in respect of certain corporate obligations issued after May 27, 1969, see section 1232(a)(3).

(e) *Special rule for inclusion of qualified tax refund effected by allocation.* For rules relating to the inclusion in income of an amount paid by a taxpayer in respect of his liability for a qualified State individual income tax and allocated or reallocated in such a manner as to apply it toward the taxpayer's liability for the Federal income tax, see paragraph (f)(1) of § 301.6361-1 of this chapter (Regulations on Procedure and Administration).

(f) *Timing of income from notional principal contracts.* For the timing of income with respect to notional principal contracts, see § 1.446-3.

(g) *Timing of income from section 467 rental agreements.* For the timing of income with respect to section 467 rental agreements, see section 467 and the regulations thereunder.

[T.D. 6500, 25 FR 11709, Nov. 26, 1960, as amended by T.D. 7001, 34 FR 997, Jan. 23, 1969; T.D. 7154, 36 FR 24996, Dec. 28, 1971; 43 FR 59357, Dec. 20, 1978; T.D. 8491, 58 FR 53135, Oct. 14, 1993; T.D. 8820, 64 FR 26851, May 18, 1999]

§ 1.451-2 Constructive receipt of income.

(a) *General rule.* Income although not actually reduced to a taxpayer's possession is constructively received by him in the taxable year during which it is credited to his account, set apart for him, or otherwise made available so that he may draw upon it at any time, or so that he could have drawn upon it during the taxable year if notice of intention to withdraw had been given. However, income is not constructively received if the taxpayer's control of its receipt is subject to substantial limitations or restrictions. Thus, if a corporation credits its employees with bonus stock, but the stock is not available to such employees until some future date, the mere crediting on the books of the corporation does not constitute receipt. In the case of interest, dividends, or other earnings (whether or not credited) payable in respect of any deposit or account in a bank, building and loan association, savings