McDonald v. Commissioner, 6 T.C. 1141 (1946)

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A bequest made in appreciation for past services is still considered a bequest and is excluded from gross income under Section 22(b)(3) of the Internal Revenue Code, even if the testator expresses gratitude for the recipient's services in the will.

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Summary

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Ethel McDonald, a registered nurse, received stocks, bonds, and money from the estate of Charles Roy, her former patient. The Commissioner argued this was compensation for services and thus taxable income. McDonald contended it was a bequest and therefore excluded from gross income. The Tax Court held that the property was a bequest because the will language demonstrated gratitude, not a contractual obligation, and Roy retained control over the assets during his life, negating any prior gift or payment. The court determined the transfer fell under the exception for bequests.

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Facts

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Charles L. Roy and Ethel McDonald entered into an oral agreement in 1935 where she would care for him for the remainder of his life. Later, Roy placed certain stocks and bonds in McDonald's name. Roy continued to exercise control over the assets, selling and reinvesting them. Roy also executed a codicil to his will bequeathing the residue of his property to McDonald, stating it was "in appreciation of the many years of loyal service and faithful care rendered me by Miss Ethel M. McDonald registered nurse…She has brought me much happiness in my old age." Roy's will and codicil were admitted to probate after his death.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in McDonald's income tax for 1940, including the value of the property received from Roy's estate in her gross income. McDonald petitioned the Tax Court for a redetermination, arguing the property was a bequest and thus exempt from taxation. The Tax Court reviewed the case de novo.

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Issue(s)

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Whether property transferred to a caregiver under a will, which expresses appreciation for services rendered, constitutes a taxable compensation for services or an exempt bequest under Section 22(b)(3) of the Internal Revenue Code.

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Holding

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No, because the language in the will indicated that the transfer was made out of appreciation and gratitude for past services, not as a contractual obligation for services rendered. Also, Roy's continued control of the assets indicated there was no inter vivos transfer, either as a gift or payment.

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Court's Reasoning

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The court relied on *United States v. Merriam*, 263 U.S. 179 (1923), which defined a

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